Agriculture Financial Services Corporation

ANNUAL REPORT

2014-15

For more than 77 years, AFSC has been in the business of helping Albertans achieve prosperity and build successful businesses.

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LETTER OF TRANSMITTAL

June 2015

The Honourable Oneil Carlier
Minister of Agriculture and Forestry
228 Legislature Building
10800 97 Avenue
Edmonton, Alberta T5K 2B6

Dear Minister Carlier:

On behalf of the Board of Directors, we are pleased to submit the twentieth annual report of the Agriculture Financial Services Corporation.

As required by Section 15 of the Agriculture Financial Services Act (RSA 2000, c. A-12), the report contains a summary of the transactions and affairs of the Corporation, its revenues and expenditures for the fiscal year ended March 31, 2015.

The report also contains audited financial statements, comprised of the statement of financial position, statement of operations, statement of cash flows and notes to the financial statements.

Yours truly,

George Groeneveld

Chairman

Brad Klak

President and Managing Director

CHAIRMAN'S MESSAGE

The long tradition of hard-working Albertans tending the land and growing the economy has today resulted in agriculture being Alberta's largest renewable industry. The agriculture and food sectors have helped shape the province's history, build communities and continue to be an integral part of the province's future.

Every day, Agriculture Financial Services Corporation (AFSC) helps Albertans achieve prosperity and build successful businesses. Since 1938, AFSC has been providing unique financial services, including agriculture insurance, income stabilization and lending capital.

Many made-in-Alberta solutions are the result of years of working closely with clients. AFSC products and services often address existing gaps in the marketplace where similar products are not available on a consistent and reliable basis from other sources. AFSC is committed to developing and strengthening client relationships, using all available resources and the knowledge and expertise of dedicated staff to bring the right products and services to clients.

My colleagues on the Board of Directors and I are proud to be part of the AFSC team and to witness the dedication and commitment of all staff. AFSC is a vibrant organization that makes a positive impact in the lives of so many hard-working Albertans; none of this would be possible without staff attention and support.

I invite you to read the 2014-15 Annual Report to see for yourself the many highlights and successes we achieved and the challenges we overcame in the past 12 months. We are very proud of our accomplishments.

George Groeneveld

Chairman

OVERVIEW OF AFSC

Rural Alberta is a key economic driver in the success of the province and Albertans need access to the proper resources to achieve their own success and prosperity. Producers need stability as they gamble with weather, volatile commodity prices and uncertainty in markets.

For more than 77 years, through Agriculture Financial Services Corporation (AFSC), producers have accessed insurance products to help manage risk and capital that allows entrepreneurs to develop their ideas. As a provincial Crown corporation, AFSC provides unique financial services to agricultural producers, agri-businesses and commercial operations. Programs include:

Income Stabilization Programs - AFSC is the delivery agent for the AgriStability program in Alberta.

Insurance Products - AFSC offers a range of insurance programs that include:

- Production insurance for annual crops, hay and honey
- Area-based insurance programs for silage and green feed, corn heat units, moisture deficiency and satellite yield
- Cattle and Hog Price Insurance Programs
- Straight Hail
- Bee-Overwintering

Lending Products and Services – AFSC offers loans for farms, commercial operations, agri-businesses and value-added enterprises. It also offers loan guarantees and capital sourcing services.

With 46 offices located across the province, AFSC works closely with producers, agribusinesses and commercial entities to support and advance agricultural development, to create new opportunities for businesses and to help enhance the quality of life for rural Albertans.

AFSC is seen as one of the best places to work. The corporation has held the title of a Top Employer in Alberta for the past seven years, and continues to rank among Canada's Top 100 Employers for six consecutive years now.

AFSC CORPORATE GOVERNANCE

AFSC operates under the authority of the *Agriculture Financial Services Act* and the *Agriculture Financial Services Regulation* as a provincial Crown Corporation. AFSC serves in a public policy role for the Government of Alberta. The Board of Directors provides leadership and direction to the Corporation, overseeing management and performance.

Composition of the Board of Directors

As of March 31, 2015, the Board of Directors consisted of seven directors. There are six independent directors, the president and managing director. The Minister of Agriculture and Rural Development appoints all members to the Board of Directors. The directors have varied skills and experience and are entrepreneurs, primary agricultural producers and agribusiness owners/operators. The board chair and three committee chairs are all independent members.

- George Groeneveld, Chair
- Patrick Bieleny
- Dean Gallimore
- Pat James
- Ian Reynolds
- Harold Schmaltz
- Brad Klak (President and Managing Director)

Board Committee Membership and Responsibilities (as of March 31, 2015)

The Board of Directors have the flexibility to appoint members to committees, and in 2014 it utilized three committees to oversee certain functions. Each committee has its own reporting requirements and operates under formal terms of reference, which are updated annually. Board and committee responsibilities include strategic management, enterprise risk management, corporate governance and stewardship, communication with shareholder and stakeholders, integrity and ethical conduct, and fiscal responsibilities and financial reporting.

Governance Committee

- Patrick Bieleny, Chair
- Dean Gallimore
- George Groeneveld
- Brad Klak (President and Managing Director)
- Harold Schmaltz

Audit Committee

- Dean Gallimore, Chair
- Patrick Bieleny
- Pat James
- Ian Reynolds
- Harold Schmaltz

Risk Committee

- Harold Schmaltz, Chair
- Patrick Bieleny
- Dean Gallimore
- George Groeneveld
- Pat James
- Brad Klak (President and Managing Director)
- Ian Reynolds

AFSC Executive Leadership Team

- Brad Klak, President and Managing Director
- Merle Jacobson, Chief Operating Officer
- Donna Bryden, Vice-President, Human and Corporate Services
- Darryl Kay, Chief Financial Officer
- Wayne McDonald, Vice-President, Innovation & Product Development
- Cathy Housdorff, Chief Communications & Marketing Officer
- JJ Campbell, Chief Information Officer

MANAGEMENT DISCUSSION AND ANALYSIS

The management discussion and analysis section offers a detailed look at AFSC's 2014-15 operations in support of our industry stakeholders. The statistical information contained in this section reflects actual transactions up to March 31, 2015. In some instances, the information contained in this section could be different from figures used in the financial statements because it includes accounting adjustments such as accruals.

ALBERTA'S AGRICULTURE INDUSTRY 2014-15 YEAR IN REVIEW

Economic Climate

Alberta's economy showed overall solid growth in 2014 and outperformed the rest of Canada. However, with the decline in oil prices in the second half of the year, the province experienced some economic challenges heading into 2015.

The price of oil declined steadily from $104.15 per barrel on March 31, 2014 to $40 mid-year, though it steadily increased to $52.46 per barrel by March 31, 2015. Additionally, the Canadian dollar declined in value relative to the United States dollar, from $0.91 on April 1, 2014 to $0.79 by March 31, 2015.

Agricultural commodity prices have demonstrated the relationships of supply and demand during the past several years, and 2014 was no exception. The hog and beef sectors experienced a demand pull, realizing unprecedented high prices during the year. However grains and oilseeds, with an overabundance of crop carried over from 2013 and an average yield in 2014, resulted in a slight decline in value by the fall of 2014.

Farmland values continued to increase, but at a slower pace than in 2012 and 2013. In 2014, land prices rose on average 8.8 per cent in Alberta. This follows average growth of 12.9 per cent in 2013 and 13.3 per cent in 2012.

The prime rate at Canada's major commercial banks decreased during the year from 3 to 2.85 per cent. Alberta's Consumer Price Index decreased by 0.1 per cent (though it increased by 2.6 per cent when excluding energy) during the year.

Annual Crop Conditions

For the most part, growing conditions in Alberta were good throughout the 2014 crop year. There were some very dry pockets in a few areas, as well as some unseeded acres due to excess moisture. Seeding conditions were very good, although there was a delay in May due to rainfall. However by early June, 96 per cent of the acres were seeded, which was slightly above the five year average.

As of mid-June, approximately 80 per cent of the crops were rated in good-to-excellent condition; however, there were some issues reported with flea beetles and gophers during this time.

Mid-July saw the rating for crop growing conditions decrease slightly to 75 per cent, although crops were developing well with adequate moisture and heat. Mid-August saw harvest begin in some areas, and overall conditions were rated as good-to-excellent in 70 per cent of crops.

In September, early frost and snowfall in some areas put the grain quality in question. After the snow melted, harvest continued and by the end of the month approximately 72 per cent of the crop was collected. By late October, 98 per cent of the crop was harvested; however, quality was an issue as it was much lower than in 2013, a record year.

The major crops saw a decline in market value, resulting in a 24 per cent decrease in the insurable value from spring 2013 to spring 2014. These major crops prices remained fairly consistent over the crop year with a four per cent decline in market value by fall 2015.

Perennial Crop Conditions

Forage crops got off to a slow growth start due to cold temperatures. In late May, 84 per cent of provincial pastures were rated in good or excellent condition, though this would decline as a result of lower surface soil moisture. Throughout the summer, about 60 per cent of pasture was rated good or excellent. In early September, good and excellent pasture ratings declined to 45 per cent due to warm and dry weather conditions, especially in the South and Peace Regions.

Hay yields were average to slightly-below average in 2014 due to cooler temperatures, experienced early in the season, across all regions. The quality of the first-cut hay crop was above average due to warm, dry weather in most parts of the province, benefiting haying operations. Seventy-three per cent of the second-cut hay crop was rated as good-to-excellent.

Livestock

Alberta continues to lead the country in total herd size; its cattle inventory is at 4.9 million head (source: Statistics Canada). This figure accounted for 41 per cent of the total Canadian cattle inventory, as of January 2015. In 2014, however, Alberta's cow herd decreased by 3.4 per cent (source: Alberta Agriculture & Rural Development).

The Alberta livestock industry continued to trend well, with very strong cattle prices as a high demand. Record highs were recorded across all cattle, reinforcing the message that the livestock industry remains robust. Cow/calf producers saw profitable prices, as costs remained stable. Calf prices for 2014, which were $192/cwt, increased to $289/cwt by the start of 2015. This represents a year-over-year increase of 50 per cent.

Background and feedlot operations also saw strong demand for their cattle, which was further supported by stable consumer demand and higher exports of live cattle to the US (source: Alberta Agriculture & Rural Development). The feeders started the year at $147/cwt and ended at $221/cwt, realizing a 50 per cent increase.

Hog prices in Alberta were still subject to volatility as experienced in previous years. However, due to declining feed costs and inventory value, there was an increase of 2.4 per cent in total Alberta hog inventories from January 1, 2014 (source: Alberta Agriculture & Rural Development) . Hog prices in the summer of 2014 were as high as $271/ckg, while in the earlier months of 2015 it was closer to $154/ckg; this represents a 43 per cent price decrease.

ASSISTANCE FOR ALBERTA'S AGRICULTURE SECTOR IN 2014-15

AFSC supported Alberta producers, who dealt with varied conditions in 2014-15, by offering a broad range of products and services.

Growing Forward 2

Alberta signed the Growing Forward 2 (GF2) Framework agreement, along with federal, provincial and territorial governments, effective April 1, 2013. GF2 outlines the direction of the following national programs: AgriInsurance, AgriStability, AgriInvest, AgriRecovery and the Wildlife Damage Compensation program.

AFSC is responsible for all portions of the multilateral GF2 agreement that govern agriculture risk management in Alberta. Alberta Agriculture and Rural Development is responsible for the bilateral portions of the agreement, which address the development of the agriculture industry.

AGRISTABILITY

Producers can experience significant margin declines due to any number of circumstances, such as production shortfalls, falling commodity prices, and/or rising input costs. The AgriStability program provides compensation and support for participating producers who experience a decline in farm margins for their whole farming operation.

AgriStability is funded in accordance with the GF2 Framework agreement, with the Government of Canada covering 60 per cent of AgriStability claim payments and administrative costs. The Government of Alberta funds the remaining 40 per cent.

Eligible participants receive compensation when their Program Margin, in a fiscal year, declines by more than 30 per cent of their Support Level. The Support Level is based on an average of three production margins selected from the previous five years, or the average of the corresponding allowable expenses; whichever is less.

Production margins are derived from allowable income less allowable expenses, adjusted for changes in inventories, accounts receivable, accounts payable and purchased inputs. The allowable expenses used in calculating the Support Level is also adjusted for accounts payable and purchased inputs. Under the program, allowable income includes the proceeds from agricultural commodity sales and the proceeds from production insurance. Allowable expenses include commodity purchases, along with direct input costs incurred in the farming operation.

Should farming operations undergo a structural change—such as a new ownership, size of operation, or farming practices—the participant's production margins during the Reference Period will be adjusted to make their Support Level comparable to the Current Program Year Margin.

In order to participate, eligible applicants must report farming income (or losses) in Canada for income tax purposes. They must also have a minimum of six months continuous farming activity, along with the completion of a production cycle. Enrollment is required by April 30 of the program year, and participants must remit an Enrollment Fee.

2014-15 year in review

As of March 31, 2015, 13,908 claims were processed with nine per cent of participants receiving payments for the 2013 claim year, which is 0.5 per cent higher than the percentage of paid claims for the 2012 claim year.

Total 2013 claim payments for the 16,318 participants are forecast to be $70 million. Early forecasts for 2014 claim payments are estimated at $94 million. These forecasts reflect the program changes under the GF2 Agreement, and are in keeping with the above average yields, volatility in commodity prices, higher cattle prices and feed costs realized over the past year.

The average Support Level for producers has decreased from $196,389 in 2012 to $186,542 in 2013 as a result of changes to the AgriStability program under the GF2 Agreement.

While program participation is declining in terms of number of applications received, the decline is not as prevalent when considering the percentage of farm cash receipts covered under the AgriStability Program. As of March 31, 2015, producers participating in the 2013 AgriStability program in order to manage their risk represent 72 per cent (2012: 75 per cent) of Alberta's farm cash receipts.

Income stabilization – AgriStability including Alberta initiatives

Claim year	Number of claims processed	Support level $1,000	Average support level	Number of claims with payment	Total payments $,000	Average payment
2013	13,908*	1,930,706	186,542	1,200	36,951	30,793
2012	17,759	2,943,874	196,389	1,432	48,976	34,202

** 13,908 claims processed out of 16,318 total AgriStability claims as of March 31, 2015.*

• Claims are processed with a one year lag.

AGRIINVEST

AgriInvest is a matching-deposit based program for producers facing margin declines. The program is administered by the federal government and assisted by AFSC as necessary. AgriInvest funds, including the government contribution, can be withdrawn at any time with no pre-existing withdrawal requirements. The program is simple, responsive, predictable, and bankable, allowing participants to easily predict government contributions to producer-managed accounts each year.

Under the GF2 Program Guidelines, federal and provincial governments will match producers' contributions up to one per cent of their Allowable Net Sales (ANS) (subject to eligibility) to a maximum of $15,000 per year. Producers are able to contribute up to one per cent of their ANS annually, and carry a maximum account balance of 400 per cent of the three year ANS average. AgriInvest accounts are opened at a participating financial institution of a producer's choice. Eligible producers have a deadline of 90 days from the date of notification to make a deposit to AgriInvest accounts.

The matching government contributions and administrative costs are shared between the federal and provincial governments in a 60:40 ratio.

2014-15 year in review

For the 2013 program year, the number of producers that participated in AgriInvest were 27,947 with an eligible Allowable Net Sales of $6.7 billion, compared to 29,616 producers at $6.8 billion for the 2012 year. As of March 29, 2015 a total of 20,454 producers made their 2013 program year AgriInvest deposits of $51.5 million, which was down from $89.7 million deposited in 2012.

Producers can withdraw funds at any time to cover margin declines or to invest in activities that will improve farm income. Alberta producers have withdrawn $349 million in government funds since AgriInvest began in 2007.

As of March 29, 2015, a total of 27,233 producers had $517 million on deposit in their AgriInvest accounts, compared to 32,248 producers with $480 million in 2012. Alberta cost shares matching government contributions to producer accounts at a 40 per cent level, with the financial statements herein reflecting only the Government of Alberta share of contributions and administrative costs.

Income Stabilization - AgriInvest

Claim Year	Number of producers eligible	Total value of maximum matchable deposits $,000	Number of producers depositing	Total value of contributions by producer $,000	Total value of contributions by government $,000
2013	27,947	66,640	20,454	51,497	51,497
2012	29,616	101,190	22,593	89,664	89,664

• *Determined on a one year lag.*

INSURANCE

Producers constantly face the uncertainty of weather, commodity price fluctuations, and global politics. That is why most consider relevant and well-designed business risk management tools to be vital to the sustainability of their operations.

AFSC is proud to be recognized as a national leader in agricultural insurance, offering some of the most comprehensive insurance programs for crops and livestock in Canada. Through the GF2 Framework Agreement, AFSC provides AgriInsurance coverage, giving producers protection against losses caused by designated natural perils on annual and perennial crops. AFSC has also developed additional programs exclusively for Alberta agricultural producers that expand available insurance coverage beyond AgriInsurance.

Producer premiums are cost-shared between participating producers and the federal and provincial governments according to a specific formula. In accordance with the multilateral GF2 Framework Agreement, AgriInsurance premiums for most programs are shared among producers, the Government of Canada and the Government of Alberta in the respective ratio of 40:36:24. However, this ratio can vary because premiums for some insurance programs and endorsements are either fully funded by producers, by the Government of Alberta, or cost-shared differently among producers and governments. The 2014-15 ratio for producers, the Government of Canada and the Government of Alberta was 40:28:32, respectively.

All of AFSC's insurance products provided $5.5 billion ($6.7 billion, 2013-14) in coverage to clients for $662 million ($851 million, 2013-14) of premium in 2014-15. The decrease is due to the decline in commodity prices for crops, thereby reducing the insured value. The overall loss-to-premium ratio for annual and perennial crops (excluding Straight Hail Program) increased to 62 per cent from 39.5 per cent in 2013-14. This increase was a result of higher spot-oss hail and production-based claims in 2014-15.

AFSC AgriInsurance products cover two main designs (Production-based and Area-based) in two categories (annual and perennial).

Production-Based AgriInsurance Products

Production-based insurance is available for most crops grown in Alberta, including cereals, oilseeds, pulses, potatoes, sugar beets, fresh vegetables, forage seed crops (pedigree alfalfa, creeping red fescue and pedigree timothy), processing vegetables, honey, hay and export timothy hay crops, as well as crops grown for silage, swath grazing and greenfeed. Premium rates vary according to the type of crop, the risk area and the coverage level selected. Producers can choose coverage levels of 50, 60, 70 or 80 per cent (90 per cent for sugar beets) based on their individual, long-term average yield for each crop.

Claims are triggered when production falls below the crop's insured coverage amount and losses are caused by insured natural perils. These include drought, snow, excess moisture, insect infestations, fire caused by lightning, hail, wind, plant disease, frost and wildlife damage.

The following benefits are included with most production-based insurance products:

- Variable Price Benefit (VPB) pays when there is a production shortfall and the Fall Market Price increases by 10 per cent or more compared to the Spring Insurance Price. For indemnity calculations, the Fall Market Price is subject to a maximum increase of 50 per cent above the Spring Insurance Price.

The VPB is not available with Export Timothy Hay Insurance.

- Reseeding Benefit pays for reseeded acres if approved by AFSC prior to reseeding.
- Unseeded Acreage Benefit may apply when land is too wet to seed in the spring.
- Unharvested Acreage Benefit may apply if the producer is unable to harvest crops due to the early onset of winter.

Area-Based AgriInsurance Products

Area-based insurance products offer limited peril coverage. Losses are triggered by events that occur in a specific geographic area. These events can include less-than-normal rainfall, spring soil moisture or heat. Area-based insurance may not directly reflect conditions experienced on the actual crop being insured. Insurance products that provide area-based coverage are Silage Greenfeed Insurance (including crops grown for silage, swath grazing and greenfeed), Corn Heat Unit (CHU) Insurance, Satellite Yield (SAT) Insurance, Moisture Deficiency Insurance (MDI) for pastures, and the Moisture Deficiency Endorsement (MDE) for hay.

Annual Crops

Annual Crop Production Insurance provides a production guarantee based on a calculated Individual Coverage for each client. Producers also have the option of purchasing the Hail Endorsement (HE) and Spring Price Endorsement (SPE) to their crop insurance policies for additional coverage on most crops.

2014-15 year in review

AFSC's annual crop insurance and endorsements are offered to Alberta's producers to help protect them from financial losses due to circumstances beyond their control. Seventy-six per cent of the 2014-15 annual crop acres planted were insured by AFSC compared to 77 per cent in 2013-14. This decline was due to an increase in the number of acres clients were unable to plant due to excess moisture. The majority of the $100 million paid on annual crops resulted from hail, as well as frost and snow in early September. While the loss-to-premium ratio of 27 per cent was higher than the nine per cent last year, it is still well below the long-term average.

AgriInsurance products for annual crops include: crop, silage greenfeed, corn heat unit, processing vegetables, honey and bee overwintering insurance.

Crop Year	Contracts	Acres ,000	Premium $,000	Liability $,000	Contracts with indemnity	Indemnity $,000	Loss/ premium %
2014	12,121	14,539	364,292	3,430,627	4,215	99,670	27.4
2013	12,689	14,686	488,760	4,269,602	2,067	44,015	9.0

Perennial Crops

Perennial Crop Production Insurance provides a production guarantee for hay crops based on average historical yields and the coverage option selected. Producers can also choose to purchase the Area-based Moisture Deficiency Endorsement (MDE) with Hay Insurance.

2014-15 year in review

Twenty-five per cent of perennial crop acres were insured by AFSC compared to 26 per cent in 2013-14. This decline was due from some client choosing to self-insure with carryover feed. Though hay yields and pasture conditions were about average, there were parts of the province—especially in the South and North areas of the province—where production was reduced by heat and dry conditions, which contributed to the $9.3 million in claims. While the loss-to-premium ratio of 57 per cent is higher than 2013-14, it is lower than the long-term average.

Perennial insurance programs include hay and moisture deficiency endorsement, export timothy hay, and satellite yield and moisture deficiency insurance for pasture

Crop Year	Contracts	Acres ,000	Premium $,000	Liability $,000	Contracts with indemnity	Indemnity $,000	Loss/ premium %
2014	5,349	6,785	16,331	91,771	1,911	9,279	56.8
2013	5,729	7,012	17,756	95,079	1,686	4,561	25.7

Endorsements

AFSC offers additional endorsements to its clients that improve Alberta's risk management programs and result in the most comprehensive insurance coverage in Canada. These endorsements are funded by producers, the Government of Alberta, and cost-shared with the federal government (except for the SPE). The endorsements respond to specific needs, which in many cases have been identified by producers themselves.

The following endorsements are available for purchase with most crop insurance products (more than one endorsement may apply to a single product):

Spring Price Endorsement (SPE) is price protection that triggers when an eligible commodity's Fall Market Price decreases by more than 10 per cent below the Spring Insurance Price. SPE premiums are cost-shared 50:50 between the Government of Alberta and producers. SPE helps producers manage "within-year" price risk, and pays on actual crop production up to the selected coverage level. For indemnity calculations, the Fall Market Price is capped at a maximum decrease of 50 per cent below the Spring Insurance Price.

2014-15 year in review

The 2014 spring insurance prices were 20 to 30 per cent less than in 2013. At the time the clients were electing the SPE the futures prices for October were 15 to 50 per cent above the SPE trigger prices. This caused the drop in number of contracts and acres covered. The 2014 indemnity was lower due to the fact that none of the major crops triggered a SPE indemnity. A couple of the minor wheat crops, some of the beans, chickpeas, sunflower and safflower did trigger a payment.

Spring Price Endorsement (SPE)

Crop Year	Contracts	Acres ,000	Premium $,000	Liability $,000	Contracts with indemnity	Indemnity $,000	Loss/ premium %
2014	927	544	9,537	137,726	179	3,807	39.9
2013	1,581	1,210	27,014	371,494	1,290	40,284	149.1

Hail Endorsement (HE) provides spot-loss coverage for crop damage caused by hail, accidental fire, or fire by lightning. Coverage is limited to level of coverage selected on a producer's crop insurance policy. HE premiums are significantly lower than Straight Hail premiums. Producers only pay 33 to 37 per cent of the Straight Hail premium rate, depending on the type of crop. HE premiums are cost-shared between producers (50 per cent), the Government of Alberta (36 per cent) and the federal government (14 per cent).

2014-15 year in review

Average hail claims were initiated until July 17, where from then on, numbers increased significantly to become well-above average for the year. Severe storms caused damage to the Airdrie-Strathmore, Olds-Three Hills, Red Deer-Lacombe and other areas of the province. Claims were spread throughout the entire province.

In 2014, AFSC insured 13.088 million acres (90 per cent of the acres under the annual programs) that were also covered by the Hail Endorsement. This provided $3.139 billion in coverage, with $251 million in total liability payments causing a 128.8 per cent loss-to-premium increase.

Hail Endorsement - Subsidized premium and linked with AgriInsurance programs

Crop Year	Contracts	Acres ,000	Premium $,000	Liability $,000	Contracts with Indemnity	Indemnity $,000	Loss/ Premium %
2014	10,631	13,088	194,668	3,139,201	3,953	250,762	128.8
2013	11,029	13,093	246,895	3,875,278	3,793	219,703	89.0

Straight Hail Insurance

Straight Hail Insurance provides producers with spot-loss crop protection from hail damage, accidental fire or fire by lightning. Anyone with an interest in an insurable crop grown in Alberta, whether they are a producer, a tenant or a crop-share landlord, can purchase Straight Hail Insurance. Coverage is available at any time once crops emerge until the crop is harvested, and takes effect at noon the next day after a policy is purchased.

AFSC clients who purchase Straight Hail Insurance online receive a two per cent premium discount. Producers who auto-elect straight hail coverage with their crop insurance before April 30 are also eligible to receive a two per cent premium discount.

Losses are paid based on the percentage of hail damage to a crop. The AFSC Straight Hail Insurance program is self-sustaining and fully funded by producer premiums.

2014-15 year in review

As was previously noted, there were a number of severe hail storms across Alberta resulting in a loss-to-premium ratio of 109 per cent, which was higher than 2013-14 and the long-term average. Total acres insured under the Straight Hail Insurance programs in 2014 were approximately the same as the 2013 levels (down two per cent). Straight hail coverage increased by 20.6 per cent due to the increase in coverage levels introduced in 2014.

During the 2014 crop year, AFSC insured 4.8 million acres under Straight Hail Insurance, providing $711 million in hail insurance coverage and $61.2 million in total indemnity payments to eligible producers.

Straight Hail Insurance - 100 per cent Producer funded premiums

Crop Year	Contracts	Acres ,000	Premium $,000	Liability $,000	Contracts with Indemnity	Indemnity $,000	Loss/ Premium %
2014	4,648	4,844	56,044	711,395	1,713	61,236	109.3
2013	4,895	4,944	47,002	589,827	1,610	37,762	80.3

Western Livestock Price Insurance Programs (WLPIP)

AFSC's Livestock Price Insurance Programs resulted from an industry-driven initiative designed to provide Alberta cattle and hog producers with an easy-to-use, made-in-Alberta risk management tool. These programs offer simple, bankable and market-driven solutions to manage market price risk, allowing producers to insure a "floor price" on their cattle and hogs, while still allowing them to sell the animals at a higher price if markets rise above the insured price.

Due to the success of the Alberta program, discussions took place between the federal government, British Columbia, Saskatchewan, and Manitoba to make the program available to producers across Western Canada. In 2014, as part of the GF2 Agreement, work was undertaken to expand the Alberta program to the three additional western provinces. Working together with their governing bodies and the federal government, the WLPIP was introduced on April 8, 2014 and became available to producers in British Columbia, Saskatchewan, and Manitoba.

Each province is responsible for liability generated from producers in their province. This is a four-year pilot program and is administered by AFSC. Within Alberta, premiums are paid by producers, and administrative costs are shared by both the federal and provincial governments.

Two different programs are currently available: the Western Cattle Price Insurance Program (WCPIP) and the Western Hog Price Insurance Program (WHPIP). These livestock price insurance products are designed to meet the needs of the beef and hog production chains, offering producers an effective tool to help manage price risk on their animals.

2014-15 year in review

During 2014-15, Alberta WLPIP producers purchased coverage on 93,500 fed cattle, 375,000 feeders and 280,000 calves. Within Alberta, WLPIP provided $1.25 billion in coverage (to Alberta producers), generating $20.7 million in premiums and paying indemnities of $74,000 as of March 31, 2015.

2014 was a record breaking year for Alberta livestock producers as strong retail demand and short supplies increased prices; however, volatility was ever present. To combat this, producers utilized the WLPIP suite of risk management programs to help protect their bottom line.

However, there was a decline in usage of total policies sold in 2014 compared to 2013, a reduction that can be attributed to multiple functions at play. Markets remained incredibly strong throughout the entire year, consistently outperforming the forecasted prices and resulting in only small indemnity payments under the Fed-Basis program. Optimism in the market and a shift in the way the cash market is used also played a part in the uptake of the WLPIP programs. The insurance program performed as intended, and interest and awareness in the program is still very high.

Continuing to help producers understand the benefits of the WLPIP suite of programs, and how it can work best for their operation, remains a high priority for AFSC. The 2014 marketing plan saw AFSC staff attend numerous producer meetings, and a focus on advertising helped increase awareness of the programs and their use of WLPIP as a tool to manage price risk. The ever increasing volatility of the futures and cash markets for livestock, coupled with increased awareness of WLPIP programs through education and marketing, contributed to sustained interest in the program in 2014. WCPIP – Calf sales saw a large increase in purchases in 2014, outperforming 2013 as producers actively mitigated their price risk in this sector of the industry.

As program administrator for the other three western provinces, AFSC fulfilled its commitment to provide the WLPIP as a risk management tool to their producers. All provinces were pleased with their uptake in the first year of availability.

Western Livestock Price Insurance Programs (WLPIP)

Fiscal year	Policies	Premium $,000	Risk $,000	Indemnity $,000	Loss/Premium %
2014-15	4,745	20,730	1,249,019	74	0
2013-14	6,002	23,434	1,770,236	3,244	14
2012-13	1,571	8,490	598,150	23,375	275
2011-12	258	1,172	62,593	2,355	201
2010-11	192	1,249	63,265	665	53
2009-10	505	2,502	147,669	93	4

Wildlife/Waterfowl Damage Compensation (WDCP)

Crop damage caused by wildlife is a reality for producers across Alberta. AFSC compensates producers on behalf of the provincial and federal governments for this type of crop damage through the WDCP. The WDCP provides the following initiatives that compensate producers when crops are damaged by protected species of wildlife and waterfowl:

- Spot-loss coverage for unharvested crops damaged by waterfowl, big game animals or upland game birds. The program applies to all commercially grown annual crops and hay that can be insured under Production and Straight Hail Insurance programs. Crops grown for pasture or cut for grazing are not eligible. An inspection fee of $25 per section of land (640 acres or a portion thereof) is required.
- Excreta Market Loss-Cleaning compensates producers for reduced market value or for cleaning grain due to wildlife excreta.
- Wildlife Damage to stacked hay and/or silage/hay stored in pits and tubes.

The WDCP is available nationally, and is cost-shared in Alberta by the federal and provincial governments at a 60:40 ratio. It compensates a maximum of 80 per cent of losses incurred. The remaining 20 per cent of losses are covered exclusively by the Government of Alberta. This results in the federal government funding 48 per cent of indemnities and the provincial government funding the remaining 52 per cent. The federal government also funds 60 per cent of the administrative and inspection costs, and the Government of Alberta funds the remaining 40 per cent.

2014-15 year in review

From 2013 to 2014, total payments and claim numbers under the WDCP decreased in dollar value, while the actual number of claims reduced by 31 per cent. Due to the early harvest there was a 48 per cent reduction in Wildlife claims, while Waterfowl claims increased by 88 per cent. As in 2013, northern part of Alberta was the most-affected area in 2014.

As of March 31, 2015, $4.44 million was paid to producers for crop damage caused by wildlife for the 2014 crop year.

Wildlife and waterfowl damage compensation (data includes claims for wildlife excreta and market loss)

Wildlife losses - 100 per cent government funded (no premium)

	Wildlife		Waterfowl		Total	
Crop Year	Number of claims	Indemnity $,000	Number of claims	Indemnity $,000	Number of claims	Indemnity $,000
2014	341	3,655	170	785	511	4,440
2013	651	6,052	90	491	741	6,543

LENDING

Loans and guarantees

For 43 years, AFSC has supported primary agricultural producers, as well as commercial and agribusinesses in Alberta. Lending products that address market gaps and meet the needs of Albertans also support rural development. Through partnerships with producers and businesses, AFSC helps maintain a profitable agriculture sector in Alberta, and stimulates healthy rural communities.

2014-15 year in review

AFSC authorized 2,031 new direct loans and guarantees for the March 31, 2015 year end, totaling $523 million; this compares to $551 million for the 2013-14 year. This year, the ratio of direct-loan dollars compared to project dollars leveraged was 1.65 times direct loan dollars. This is based on $523 million in direct loans, representing $862 million in total project dollars in the province's agriculture, commercial enterprises and value-added sectors.

In 2014-15, AFSC's lending portfolio climbed to $2.08 billion, as compared to $1.96 billion the previous year. AFSC's loan portfolio continues to have comparatively low levels of arrears and allowances for doubtful accounts. AFSC's overall arrears dropped from 1.6 per cent (2013) to 1.4 per cent (2014), due primarily to Alberta's strong economic climate and AFSC's arrears management.

With loans of up to $5 million available to producers and businesses, AFSC clients can choose the right financial option to suit their needs:

Alberta Farm Loan Program

This program assists with working capital, land and equipment purchases, or existing debt refinancing. The Beginning Farmer Incentive helps new farmers get started by reducing borrowing costs by an additional 1.5 per cent for the first five years of the loan.

2014-15 year in review

The number of Alberta Farm Loans approved in 2014-15 increased to 1,576 from 1,555 in 2013-14 year. The number of dollars approved under the program increased to $368,520,124 in 2014-15 from $357,896,455 in 2013-14. A strong agricultural economy supported this growth.

Fiscal Year	Number of loans	Lending $,000	Project Outlay $,000
2014-15	1,576	368,520	422,033
2013-14	1,555	357,896	412,792

Revolving Loan Program

The Revolving Loan Program meets the needs of Alberta's primary producers by enabling borrowing through an online, self-selecting and reusable loan facility that reduces the need for repeated transactions while providing faster service. The program offers a fixed-rate for terms of up to three years. Loans are renewable upon expiry.

2014-15 year in review

The overall number of Revolving Loans approved to date increased to 595 from 418, and the amount of revolving loans approved for the 2014-15 year was 201. The number of dollars approved under the program in 2014-15 was $31,526,000 as compared to $33,692,500 in 2013-14. The outstanding amount under this program increased to $56,219,035 in 2014-15 from $37,672,159 in 2013-14. Increases in input costs, difficulty transporting grains, and increased expansion costs are contributing factors to increases in the program.

Revolving Loan program

Fiscal Year	Number of Loans	Lending $,000	Project outlay $,000
2014-15	201	31,526	31,496
2013-14	215	33,693	34,819

Value-Added and Agribusiness Program (VAAP)

This program provides assistance to businesses that support agriculture and to agriculture-focused, value-added enterprises with fixed-rate loans to acquire land or equipment, to refinance debt or to provide working capital. Value-added is defined as an enterprise that processes or alters a product and adds value to the product through a business or manufacturing process in either Agri-industry or any other industry. Enterprises that are retail or service industries are not considered Value-Added.

2014-15 year in review

The number of loans approved in 2014-15 decreased to 84 from 102 in the 2014-15 year. The amount of dollars approved under the program in 2014-15 was $45,136,503 as compared to $63,940,813 in 2014-15.

The VAAP loans decreased in the 2014-15 year, as AFSC had a reduced number of experienced lenders in the field due to resignations and retirements. Due to succession planning, the majority of these vacancies are now filled or being filled.

Fiscal Year	Number of Loans	Lending $,000	Project outlay $,000
2014-15	84	45,137	95,002
2013-14	102	63,941	142,463

Commercial Loan Programs

The Commercial Loan Program assists both rural and urban commercial businesses in growing their operations by providing fixed-rate loans.

2014-15 year in review

The number of loans approved under the Commercial Loan Program in 2014-15 decreased to 129 from 164 in the 2013-14 year. The amount of dollars approved under the program in 2014-15 was $63,004,862 as compared to $81,342,566 in 2013-14.

Similarly to VAAP, Commercial loans decreased in 2014-15 year as a result of a reduced number of experienced lenders in the field due to resignations and retirements. The majority of these vacancies are now filled or being filled as a result of succession planning.

Commercial loans

Fiscal Year	Number of Loans	Lending $,000	Project outlay $,000
2014-15	129	63,005	131,957
2013-14	164	81,343	151,133

Specific Loan Guarantee Program

This program provides guarantees to other lenders in support of operating loans to facilitate a client's access to working capital.

2014-15 year in review

In December, 2014, AFSC was asked to assist feeder associations with its Specific Guarantee Program. AFSC was able to act quickly to modify the program to meet the needs of these associations and deliver them quickly through a new centralized process. AFSC processed 17 feeder association applications to 13 feeder associations, totaling $5.8 million as of March 31, 2015.

Specific guarantees

Fiscal Year	Number of Loans	Lending $,000	Project outlay $,000
2014-15	13	5,802	170,750
2013-14	-	-	-

Disaster Recovery Programs

Following the devastating wildfires in Slave Lake in May 2011, AFSC initiated and administered direct support to any eligible enterprises by providing debt capital that was interest free and payment free for the initial 24 months.

AFSC Alberta Flood Recovery Loan Programs, Alberta Flood Recovery Loan Guarantee Program and Alberta Flood Recovery Interest Rebate Program were announced in July of 2013, and the province extended the deadline to apply to June 30, 2014.

2014-15 year in review

The Slave Lake Benefit has nearly concluded, with only nine loans still receiving the zero per cent interest rate. From the $96 million total funds disbursed to Slave Lake businesses, $58 million has been repaid and there are no loan losses to date. A number of businesses have chosen to maintain their AFSC financing at regular AFSC interest rates, with $38 million in loan balances outstanding, and only $8 million of this amount remaining at zero per cent. There are 11 loans in arrears totaling $2.9 million.

The Alberta Flood Recovery programs for the High River area contributed $3.6 million to the lending total and $19.4 million in guarantees. As of March 31, 2015, $595,000 in interest rate rebates were issued to 66 businesses covered under the direct loans and loan guarantees.

Alberta Flood Recovery program

Fiscal Year	Number of Loans	Lending $,000	Project outlay $,000
2014-15	26	8,878	10,678
2013-14	67	14,196	14,467

COMMUNITY INVESTMENT

AFSC believes strongly that being a good corporate citizen and providing community support reaches far beyond the 46 cities and towns where AFSC staff live and work. Through contributions to community projects, organizations and events, AFSC supports hundreds of events each year. In 2014-15, local and corporate community investment initiatives were directed at organizations such as the Chamber of Commerce, Alberta 4-H, Family and Community Support Services, City Slickers, agricultural societies and schools.

Additionally, AFSC supported several major trade shows and events, including the Calgary Stampede, Advancing Women in Agriculture Conference, E-Town, Canadian Bull Congress, Peace Country Classic, Northlands Farm and Ranch Show, Alberta Beef Industry Conference, the Banff Pork Seminar, Growing the North Conference, Agri-Trade, and Farming Smarter. Support was also given to numerous agricultural conferences, agriculture tours and seminars, farm safety days, community suppers, appreciation days, and local community and educational events including awards and scholarships.

The Canadian Foodgrains Bank is another important organization supported by AFSC. The Canadian Foodgrains Bank provides a practical way for Canadian farmers to share their harvest with the less fortunate and is a well-respected and attended event for countless volunteers. This past year, AFSC sponsored 29 locations in Alberta which totaled more than 3,900 acres. AFSC provides Straight Hail Insurance free of charge on crops donated by partnering communities in Alberta.

CUSTOMER SERVICE COMMITMENT

AFSC continues to build upon its solid culture of performance by ensuring staff have the knowledge and tools they require to service clients with excellence.

Employees are the backbone of AFSC and a vital link to providing the high level of service that Alberta producers and business owners have come to expect.

The 2014-15 year was focused on the development and pilot of a management rotation program. On average, AFSC's employees have about eight-and-a-half years of service with the corporation. However, many employees have been with us for more than 25 years. As a result, it is imperative that AFSC prepare its next generation of leaders.

An extensive amount of work went into building AFSC's Client/Employee Experience Model in 2014-15. These values and behaviours are foundational to the development of a client-centric culture in which employees at all levels of the organization understand and exhibit expected behaviors, regardless of circumstance or interaction. Expected results include high levels of client satisfaction and employee engagement.

Employee growth through training and development continues to be a priority for 2015, with a focus on cross-training and cross-functional career opportunities. Additionally, AFSC continues to offer training and development opportunities that are targeted to help employees at all levels of the organization achieve their career goals.

GOALS AND CORPORATE PERFORMANCE

AFSC's 2014-15 Corporate Plan contained strategies and an action plan to achieve its goals. Several corporate strategies are client-focused and designed to better serve customers, including producers on the ground as well as rural and agri-business clients. Accordingly, AFSC surveys its clients to obtain valuable feedback and to gauge satisfaction levels with all programs offered by AFSC. Customer feedback is used to monitor the effectiveness of program delivery and management processes, and to identify areas for continuous improvement.

The AFSC client satisfaction survey has historically been an annual survey, conducted by an independent firm, usually in February and March of each year. However, the 2014 survey was postponed due to the internal transition and restructuring. AFSC is currently developing a transactional client satisfaction survey that will provide timely and accurate feedback as clients use AFSC's services and products throughout the year. The first results will be reported in the 2015-16 Annual Report.

Claim turnaround times are another key performance measure that is important to AFSC clients, government, and other stakeholders. As a result, aggressive claim turnaround targets were set for both AgriInsurance and AgriStability.

AgriInsurance has two key turnaround performance targets. The first is to measure the time between claims being filed and the completion of on-farm inspections by adjusters. Successfully meeting that target is dependent on the timing and number of claims filed by clients for crop losses.

The second measure is the time between the adjuster completing an on-farm inspection and when the claim payment is processed.

For Hail Endorsement and Straight Hail claims, the 31 day (33 days in 2013) turnaround time between claim filing to inspection was an improvement over last year, but failed to meet the target of 18 days due to the severity of hail after July 17 and above average claim numbers. However, in this fiscal year, the time between claim inspection to claim payment of five days (three days in 2013) was well under the target of 22 days.

For AgriInsurance post-harvest claims, the actual turnaround time of 59 days (38 days in 2013) between claim filing to inspection failed to meet the target of 20 days. The time between claim inspection to claim payment turnaround averaged 18 days (16 days in 2013), more than meeting the target of 30 days.

Similarly, AgriStability has two key turnaround performance targets. The first measure is the time between receipt of complete information and the payment of claims received before August 15. The second measure is the time between receipt of complete information and the payment of claims received after August 15. Meeting these targets depends upon the number of claims filed early versus claims received on or near the September 30 filing deadline, as well as the number and magnitude of additional programs to administer.

In 2014, the actual turnaround time was 77 days (41 days in 2013) for 2013 AgriStability claims received prior to August 15, and 77 days (66 days for 2013) for 2013 claims received after August 15. The increase in claim processing turnaround time prior to August 15 is due to extra verifying of the margins with the introduction of limited margins.

Approvals, leverage and arrears are the three key performance targets for Lending. The total for actual loans approved was $523 million, which exceeded the target of $517 million. Surpassing this target resulted from the strong demand for agriculture debt capital. The second measure was the leverage of the total project value to the debt capital where the actual results were 1.65, exceeding the target of 1.4. The addition of the feeder-loan guarantees contributed to exceeding this target.

Lending payments in arrears is the third measure. The actual arrears at March 31, 2015 was 1.4 per cent which outperformed the target of three per cent. The strong performance of the agriculture portfolio contributed with arrears of 0.5 per cent.

AFSC measures the effectiveness of its project management using a weighted average of on-time and on-budget statistics. Our current year ratio of 69 per cent falls below the target of 75 per cent. We have continued to improve in the accuracy and timing of our measurements; however, the 75 per cent target was not adjusted to reflect the potential impact of these changes.

Lastly, AFSC conducted an employee engagement survey, measuring a variety of factors. In a year of unprecedented organizational change, AFSC maintained an engagement index of 67 per cent on the February 2015 Employee Survey, with 78 per cent of staff overall satisfied in their work, 76 per cent proud to tell people they work for AFSC, 70 per cent inspired to give their very best, and 60 per cent preferring to stay with AFSC.

Over the course of the next year AFSC will continue to work to enhance staff engagement to create a better experience for its clients. The further goal in 2015-16 is to conduct employee engagement surveys on a quarterly basis to measure and maintain employee engagement for all AFSC staff.

ENTERPRISE RISK MANAGEMENT

To mitigate the risk involved in AFSC's business activities, the Board of Directors sets goals and strategic priorities for the upcoming fiscal year, which are clearly linked to departmental tactical plans. Risk management is vital to protecting AFSC's customers, business interests, and long-term viability. AFSC has a comprehensive Enterprise Risk Management plan to mitigate identified risks to acceptable levels.

The Enterprise Risk Management plan and practices are overseen by the Board of Directors and its committees. The Executive Leadership Team is responsible for managing corporate-wide enterprise risk, with all levels of management responsible for ongoing monitoring of risks and implementing appropriate measures to mitigate them.

The Enterprise Risk Management plan ensures that risk-taking activities and practices are appropriate to meet customer needs, while fulfilling AFSC's corporate strategy and goals.

Following is a discussion of some key risks the corporation faces and how these risks are managed.

Strategic Planning

The Board of Directors attend an annual strategic planning retreat where it reviews the corporate vision, mission, goals and strategic priorities as identified through an economic and agricultural scan presented by independent experts outside of the corporation. The board also reviews the mandates of AFSC and its core programs, and deals with strategies to address key risks.

Credit Risk

Credit risk is the possibility that a debtor will not pay amounts owing to AFSC, thus resulting in a loss. Security requirements for a loan or guarantee will be different depending on the risk involved in each individual operation. New and emerging businesses are required to provide adequate security, as are enterprises needing specialized or customized equipment.

Lending staff continually monitor loan accounts for risk and ensure a prompt response to any financial difficulties that customers may encounter. Although these measures don't eliminate risk, they diminish the possibility of significant losses. The breakdown of AFSC's loan portfolio by sector is provided in Note 14 to the financial statements to highlight the areas of credit risk exposure by industry.

AFSC invests surplus funds generated by production and hail insurance operations. The majority of these funds are invested in bonds of federal or provincial governments, or securities of corporations that have superior credit ratings to minimize the risk of loss of the investment. The investments are managed by Alberta Investment Management Corporation, an Alberta Crown corporation. AFSC also invests in asset-backed securities (AAA rating) and senior bank notes (A rating and higher), securities which have relatively low levels of risk.

Payments to some CAIS and AgriStability participants resulted in over payments when information provided to AFSC by participants proved to be incorrect or not supported. As this creates a risk of potential non-repayment of the over payments, AFSC may off-set over payments against any payments to customers.

The insurance coverage that AFSC provides on crops becomes effective at the acceptance of the customer's application for insurance, whether or not payment of premiums has been made in full. To minimize the risk of non-collection of outstanding insurance premiums, AFSC offers a discount for early payment of insurance premiums and arranges a payment schedule for all customers not taking advantage of the discount. Insurance staff monitor outstanding premiums closely, and when required, promptly take collection action.

AFSC accepts insurance coverage on credit, and offers a discount for premium payments received the earlier of June 25 or within 15 days of the billing date, with the exception of the Western Livestock Price Insurance products. These must be paid within 15 days. Clients facing financial difficulties may ask to make arrangements for a payment schedule. Unless specific payment arrangements have been approved, insurance is not renewed when there are outstanding premiums from a prior year.

To reduce AFSC's exposure to insurance program risk, AFSC enters into reinsurance arrangements with private sector reinsurance companies. AFSC selects reinsurance companies with superior credit ratings to mitigate credit risk related to non-recoverability of reinsurance proceeds from private reinsurance companies. In addition, AFSC engages a wide range of reinsurance companies to minimize the concentration of credit risk for the reinsurance contracts within its portfolio.

Interest Rate Risk

Interest rate risk is the impact that future changes in interest rates have on cash flows and fair value of assets and liabilities. To mitigate interest rate risk, AFSC focuses on matching the repayment timing of amounts borrowed with the repayment timing of loans made. AFSC allows its borrowers to repay loans in part or in full at any time without penalty.

Repayment of loans by customers in part or in full prior to the contract date is a normal feature of AFSC's lending programs. AFSC strives to minimize the gap between loan repayment and debt repayment on a regular basis. As loan repayments before maturity are not determinable with reasonable certainty, gaps are identified and dealt with when new borrowings are made.

The gap position as of March 31, 2015 is presented in Note 14 to the financial statements. At March 31, 2015, there was a reasonable gap between the amount of loan and debt repayments due within the one-year period. AFSC has plans to bridge this gap through new borrowing that would result in reducing interest rate risk.

Interest rate risk is further mitigated by AFSC's Investment Policy covering surplus funds related to AgriInsurance, hay and pasture insurance and hail insurance program operations. The investment policy is approved by the Board of Directors, and compliance with the policy is reported to the board audit committee at least twice a year. Duration of investments are set to match management's best estimate of when investments need to be liquidated to meet financial commitments.

Liquidity Risk

Liquidity risk is the potential for financial loss if AFSC cannot meet its financial commitments for cash. As an integral part of liquidity management, AFSC uses sound cash management practices through cash flow statements, with the objective of maintaining sufficient funds to meet business needs at all times. AFSC mitigates liquidity risks by retaining adequate bank balances in operating accounts. These accounts yield a reasonable rate of return through the Government of Alberta Consolidated Cash Investment Trust Fund. The investment portfolio of surplus funds in insurance operations is structured in such a way that a portion of the portfolio is accessible at short notice to fund claim payments. Additionally, AFSC has access to advances from the provincial government to meet short-term cash flow needs.

Insurance Risk

Insurance risk is the potential for financial loss if AgriInsurance claims exceed program premiums and reserves in a given year. AFSC applies sound actuarial principles to mitigate insurance risk by setting premium rates to break even with claim payments over a term of 25 years. Independent actuarial firms certify AFSC's major insurance programs to ensure their long-term sustainability and a method of setting premiums that is reasonable.

The federal and provincial governments provide reinsurance funds to AFSC to help mitigate inherent insurance risks for its AgriInsurance program. This is described in more detail in Note 2 (m) to the financial statements. A summary of transactions in the two reinsurance funds is under Note 16 to the financial statements.

AFSC management has arranged reinsurance with private sector companies to further mitigate risks inherent in the insurance business. In the event that insurance claims exceed a threshold level that has been determined in relation to premiums, these reinsurance arrangements limit AFSC's exposure to insurance program losses.

In 2009, AFSC launched new price risk protection insurance for the cattle sector. The program has yet to build adequate reserves to be able to absorb unexpected levels of claims.

Operational Risk

The risk of loss resulting from insufficient or failed internal processes is referred to as operational risk. AFSC has developed an Enterprise Risk Management Plan to provide a framework and common understanding of risk and mitigation measures. Corporate policies and procedures are also in place to ensure internal controls exist and are adequate to reduce exposure to operational risks.

AFSC has established formal processes to monitor compliance with policies and procedures, and managers oversee operational risk in their respective work areas. Finance, Human Resources, Administrative Services and Information Technology manage operational risks specific to their areas as follows:

Operations: operational risks inherent in businesses and processes

Finance: credit, interest rate, liquidity and financial controls

Human Resources: employee recruitment, retention, succession planning and employee discipline

Administrative Services: physical facilities and assets, employee safety and security, corporate liability and business continuity

Information Technology: computer information processing systems, electronic information, security, data integrity, disaster recovery and storage, retrieval, and destruction of electronic information.

The Internal Audit Department plans and conducts operational and functional audits based on risk assessments, and regularly examines internal process controls and compliance with policies and procedures. External auditors review the effectiveness of internal controls annually. Both external and internal auditing groups report their findings and recommendations to the board audit committee. The recommendations from these two audits are passed to the Executive Leadership Team to implement in a timely manner. Management is responsible for periodically reporting progress on implementation of audit recommendations to the board audit committee.

FINANCIAL HIGHLIGHTS

NOTE: Please read the following information in conjunction with AFSC's financial statements and attached notes.

Overall, AFSC recorded revenue of $990 million and expenses of $746 million resulting in a net surplus of $244 million. The surplus for the year was mainly due to lower crop losses relative to premiums as a result of better than normal yields.

AFSC's assets increased from $4.034 billion to $4.395 billion of which $2.068 billion or 47 per cent represents the loan portfolio. The liabilities of AFSC increased from $2.121 billion to $2.239 billion, mainly as a result of additional borrowing made to finance new loans.

The carried-over surplus balance increased to $2.156 billion. Included in the surplus balance is $2.031 billion in the Crop Insurance Fund made up of a $1.990 billion surplus representing the national program, a $7 million surplus representing Alberta initiatives, and a surplus of $34 million representing the Crop Reinsurance Fund of Alberta.

AGRISTABILITY STATISTICAL SUMMARY

Income stabilization - AgriStability including Alberta initiatives

Claim year	Number of claims processed	Support level $1,000	Average support level	Number of claims with payment	Total payments $,000	Average payment
2013	13,908*	1,930,706	186,542	1,200	36,951	30,793
2012	17,759	2,943,874	196,389	1,432	48,976	34,202
2011	21,079	2,792,085	155,505	2,219	49,916	22,495
2010	23,992	2,681,536	131,474	4,144	132,108	31,880
2009	26,865	2,612,329	112,315	7,855	230,401	29,332
2008	28,862	2,257,661	91,693	4,054	113,324	27,954

** 13,908 claims processed out of 16,318 total AgriStability claims as of March 31, 2015.*

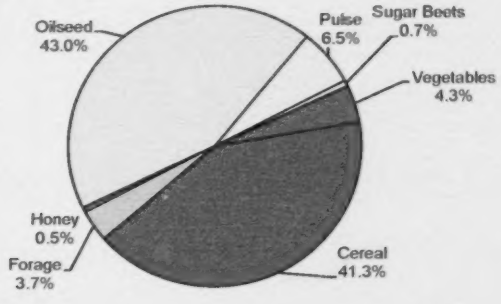
• Claims are processed with a one year lag.

AGRIINSURANCE STATISTICAL SUMMARIES

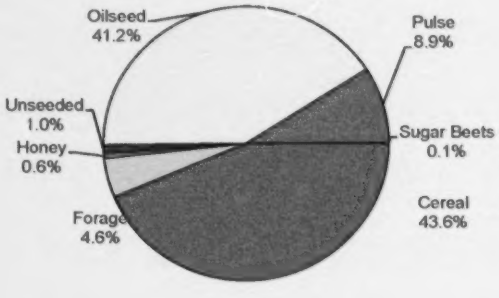
AgriInsurance for Annual and Perennial Crops

Crop Year	Number of Contracts	Acres ,000	Risk $,000	Premium $,000	Loss $,000	Loss/ premium %
2014	17,470	21,324	3,522,398	584,828	363,518	62.2
2013	18,418	21,698	4,364,681	780,425	308,563	39.5
2012	19,114	21,747	4,699,383	662,566	551,196	83.2
2011	18,762	19,961	3,886,862	612,720	315,853	51.5
2010	20,554	21,285	3,302,273	536,840	357,879	66.7
2009	18,895	19,717	2,758,388	489,993	544,098	111.0

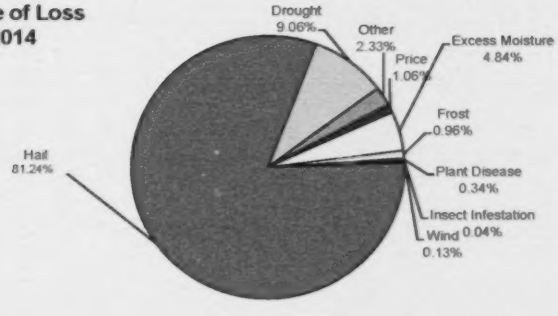
2014 Risk



2014 Loss



Cause of Loss 2014

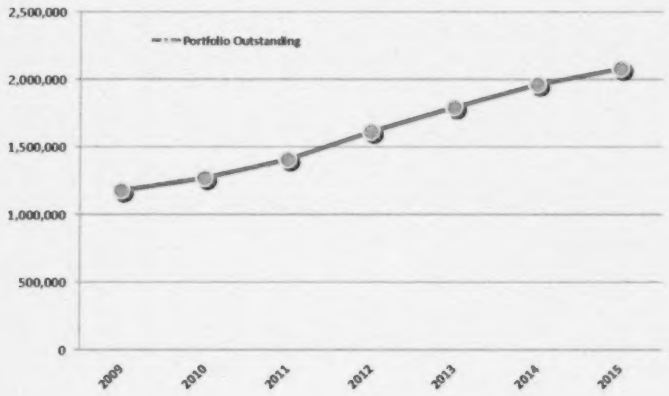


LENDING STATISTICAL SUMMARIES

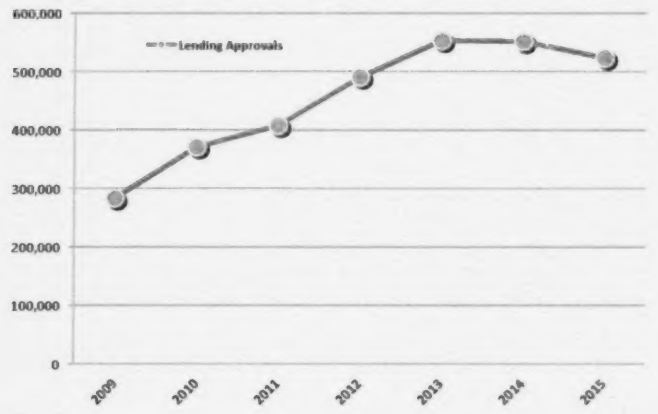
Lending statistical summaries

March 31	New loan approvals ($,000)	Portfolio outstanding ($,000)
2015	522,868	2,077,493
2014	551,068	1,959,334
2013	552,898	1,789,700
2012	490,013	1,610,286
2011	407,438	1,403,323
2010	370,581	1,265,653
2009	282,610	1,174,018

Total loan portfolio outstanding 2009 to 2015 ($,000)



Total loan dollars approved (new lending) 2009 to 2015 ($,000)



MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements of Agriculture Financial Services Corporation and all other information relating to the Corporation contained in this annual report have been prepared and presented by management, who is responsible for the integrity and fair presentation of the information.

These financial statements are prepared in accordance with Canadian generally accepted accounting standards. The financial statements necessarily include some amounts that are based on informed judgments and best estimates of management. The financial information contained elsewhere in this annual report is consistent with that in the financial statements.

Management is responsible for maintaining a system of internal controls designed to provide reasonable assurance as to the reliability of financial information, and to ensure corporate assets are safeguarded and liabilities are recognized. The internal control systems are augmented by periodic reviews by the Corporation's internal and external auditors.

The Auditor General of Alberta has been engaged to perform an independent external audit of these financial statements in accordance with Canadian generally accepted auditing standards, and has expressed his opinion in the accompanying Auditor's Report.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. The Board of Directors exercises this responsibility through the Board Audit Committee, composed of Directors who are not employees of the Corporation. The Board Audit Committee meets with the internal auditors and the external auditors-both in the presence and in the absence of management to discuss their audit, including any findings as to the integrity of financial reporting processes and the adequacy of our systems of internal controls. The internal and external auditors have full and unrestricted access to the Board Audit Committee.

Brad Klak, MBA, ICD.D.
President and Managing Director

Darryl Kay, B. Comm., C.A.
Chief Financial Officer

AUDITOR GENERAL *Alberta*

Independent Auditor's Report

To the Board of Directors of the Agriculture Financial Services Corporation

Report on the Financial Statements

I have audited the accompanying financial statements of the Agriculture Financial Services Corporation, which comprise the statement of financial position as at March 31, 2015, and the statements of operations and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Agriculture Financial Services Corporation as at March 31, 2015, and the results of its operations, its remeasurement gains and losses, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Merwan N. Saher, FCA

Auditor General

June 2, 2015

Edmonton, Alberta

AGRICULTURE FINANCIAL SERVICES CORPORATION

FINANCIAL STATEMENTS

MARCH 31, 2015

Independent Auditor's Report

Statement of Financial Position

Statement of Operations

Statement of Cash Flows

Notes to the Financial Statements

Schedule of Operations

Schedule of Salaries and Benefits

AGRICULTURE FINANCIAL SERVICES CORPORATION

STATEMENT OF FINANCIAL POSITION

AS AT MARCH 31, 2015
(dollars in thousands)

	2015	2014
ASSETS		
Cash	$ 216,869	$ 232,017
Accounts receivable (Note 3)	12,059	11,992
Due from Government of Alberta	66,250	40,176
Due from Government of Canada	155,677	116,260
Loans receivable (Note 4)	2,067,622	1,952,919
Investments (Note 5)	1,834,695	1,634,743
Tangible capital assets (Note 6)	41,614	45,439
	$ 4,394,786	$ 4,033,546
LIABILITIES		
Accounts payable and accrued liabilities (Note 7)	$ 14,387	$ 16,719
Due to other provincial governments (Note 8)	4,736	-
Indemnities payable (Note 9)	172,484	133,828
Borrowing from Government of Alberta (Note 10)	2,023,926	1,946,568
Deferred revenue (Note 11)	23,006	23,978
	2,238,539	2,121,093
NET ASSETS		
Net assets at beginning of year	1,912,453	1,411,159
Net operating results	243,794	501,294
Net assets at end of year	2,156,247	1,912,453
	$ 4,394,786	$ 4,033,546

Contingencies, Contractual Obligations and Commitments (Note 13)

The accompanying notes and schedules are part of these financial statements.

Dean Gallimore, Chair of the Audit Committee

George Groeneveld, Chair of the Board

Brad Klak, President and Managing Director

Darryl Kay, Chief Financial Officer

AGRICULTURE FINANCIAL SERVICES CORPORATION

STATEMENT OF OPERATIONS

YEAR ENDED MARCH 31, 2015

(dollars in thousands)

	2015		2014
	Budget	Actual (Schedule 1)	Actual
Revenues:			
Premiums from insured persons	$ 342,948	$ 307,214	$ 378,967
Interest	89,183	88,410	85,149
Contribution from Government of Alberta	353,279	290,291	328,198
Contribution from Government of Canada	281,753	244,132	258,570
Investment income	34,573	43,695	32,810
Fees and other income	13,714	16,535	14,200
	1,115,450	990,277	1,097,894
Expenses:			
AgriInsurance	414,494	431,868	371,944
Agriculture Income Support	141,900	134,641	73,151
Lending	127,919	104,817	90,471
Hail Insurance	46,895	66,517	42,576
Livestock Insurance	12,280	4,456	8,740
Wildlife Damage Compensation	6,589	4,184	9,718
	750,077	746,483	596,600
Net operating results	$ 365,373	$ 243,794	$ 501,294

The accompanying notes and schedules are part of these financial statements.

AGRICULTURE FINANCIAL SERVICES CORPORATION

STATEMENT OF CASH FLOWS

YEAR ENDED MARCH 31, 2015

(dollars in thousands)

	2015	2014
Operating activities:		
Net operating results	$ 243,794	$ 501,294
Non-cash items included in operating results		
Amortization of capital assets	9,650	9,516
Deferred capital contribution recognized as revenue	(3,771)	(4,838)
Amortization of premiums and discounts	3,102	4,921
Allowance for doubtful accounts and for losses	4,221	(3,273)
Gain on sale of investments	(7,621)	(3,907)
Loss on disposal of capital assets	28	1
Unearned revenue received	4,349	5,732
Changes in assets and liabilities relating to operations	(28,446)	12,270
Net cash provided by operating activities[1]	225,306	521,716
Investing activities:		
Proceeds from repayments of loans receivable	383,338	327,660
Loan disbursements	(506,186)	(502,067)
Purchase of investments	(1,064,288)	(1,088,998)
Proceeds on disposal of investments	870,245	574,696
Net cash utilized by investing activities	(316,891)	(688,709)
Capital activities:		
Purchase of tangible capital assets	(5,876)	(8,286)
Proceeds on disposal of tangible capital assets	24	-
Net cash utilized by capital activities	(5,852)	(8,286)
Financing activities:		
Borrowing from the Government of Alberta	123,586	332,578
Contributions restricted for capital	4,182	7,072
Repayment of borrowing from the Government of Alberta	(45,479)	(193,393)
Net cash provided by financing activities	82,289	146,257
Net decrease in cash during the year	(15,148)	(29,022)
Cash at beginning of year	232,017	261,039
Cash at end of year	$ 216,869	$ 232,017

[1] Net cash provided by operating activities includes $70,612 (2014 $69,691) of interest paid.

The accompanying notes and schedules are part of these financial statements.

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2015

(dollars in thousands)

Note 1 Authority and Purpose

The Agriculture Financial Services Corporation (the "Corporation") operates under the authority of the *Agriculture Financial Services Act*, Chapter A-12 RSA 2000. AFSC is exempt from income taxes under the *Income Tax Act*.

The Corporation provides income stabilization, disaster assistance, AgriInsurance, livestock price insurance and loans and guarantees to primary agriculture producers in Alberta. Loans and guarantees are also provided to commercial Alberta businesses.

Note 2 Significant Accounting Policies and Reporting Practices

These financial statements are prepared in accordance with Canadian Public Sector Accounting Standards (PSAS).

Basis of Financial Reporting:

(a) Revenue Recognition

Premiums from insured persons are recorded as revenue when earned over the insurance policy contract term for AgriInsurance and Hail Insurance programs. A corresponding premium contribution from the Governments of Canada and Alberta is also recognized on policies sold under the AgriInsurance programs and is included in Contributions from the Governments of Canada and Alberta. Premiums received by the Corporation in advance of the related policy term are recorded as deferred revenue until earned.

For the Livestock Price Insurance Program premiums are recorded as revenue when a policy is sold.

Government transfers from the Governments of Canada and Alberta are referred to as government contributions. Contributions from the Governments of Canada and Alberta for estimated compensation payments to participants under Agriculture Income Support Programs such as AgriStability (formerly the Canadian Agriculture Income Stabilization (CAIS)), AgriInvest, AgriRecovery and Wildlife Damage Compensation are recognized in the period in which the program payments to producers are determinable. Overpayments of compensation payments under the AgriStability program are recovered through repayment or the reduction of future eligible payments under the program or other programs administered by the Corporation. Overpayments are repayable to the Governments of Canada and Alberta.

Contributions received from the Governments of Canada and Alberta that are restricted for the acquisition of tangible capital assets are recognized as deferred revenue when received and recognized as revenue over the useful life of the acquired tangible capital assets.

Note 2 Significant Accounting Policies and Reporting Practices (continued)

(a) Revenue Recognition (continued)

Interest income on loans receivable is recognized as earned over the period of loan repayment except for impaired loans. At the date impairment is assessed, arrears of interest is derecognized and is not accrued until the loan reverts to performing status or is terminated. When an impaired loan is reverted to performing status, interest is accrued and recognized from the date of change in status of the loan. Interest previously unrecognized is recognized only when payment is received.

Investment income is recognized in the period in which the income is earned. Gains or losses on the value on investments are recognized when realized on disposition.

Fees which are primarily from lending activities and AgriStability applications are recognized on processing of the related application. AgriStability program application fees received in advance of the program commencement date are recorded as deferred revenue until earned.

(b) Expenses

Expenses are reported on an accrual basis. The cost of all goods consumed and services received during the year are expensed. Interest expense includes debt servicing costs such as amortization of discounts and premiums, foreign exchange gains and losses, and issuance costs.

Identifiable administrative expenses for all of the programs administered by AFSC are charged directly to the specific program. Where the direct charging of the administrative expenses to specific programs is not possible, these expenses are allocated to each program on a basis approved by management.

(c) Net Assets

Net assets represent the difference between the carrying value of assets held by the Corporation and its liabilities.

Canadian public sector accounting standards require a "net debt" presentation for the statement of financial position in the summary financial statements of governments. Net debt presentation reports the difference between financial assets and liabilities as "net debt" or "net financial assets" as an indicator of the future revenues required to pay for past transactions and events. The Corporation operates within the government reporting entity, and does not finance all its expenditures by independently raising revenues. Accordingly, these financial statements do not report a net debt indicator.

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2015

(dollars in thousands)

Note 2 Significant Accounting Policies and Reporting Practices (continued)

(d) Valuation of Financial Assets and Liabilities

AFSC's financial assets and liabilities include cash, receivables, loans receivable, investments, accounts payable and accrued liabilities, indemnities payable, borrowing from the Government of Alberta and deferred revenue. All Financial instruments are held at cost or amortized cost. The effective interest method is used to recognize interest income or expense. Transaction costs related to all financial instruments are expensed as incurred.

Since no financial assets or liabilities are recorded at fair value and there were no foreign currency transactions, these statements do not present a Statement of Remeasurement Gains and Losses as the Corporation has no remeasurement gains or losses.

(e) Measurement Uncertainty

There is an inherent degree of uncertainty associated with the measurement of certain amounts recognized or disclosed in the financial statements. In the preparation of the financial statements, management is required to make estimates and assumptions that affect the reported amount of assets, liabilities, net assets and related disclosures. Estimates of material amounts relate to Indemnities payable and Allowances for doubtful accounts and for losses on Accounts receivable and Loans receivable. Accordingly, actual results could differ from these and other estimates thereby impacting future financial statements. Disclosure of the nature and circumstances giving rise to the uncertainty, have been disclosed in the relevant notes in the financial statements (See Notes 3, 4 and 9).

(f) Cash

Cash consists of bank balances. Interest is earned on bank balances as part of funds managed by the Government of Alberta and is included in investment income.

(g) Loans Receivable and Allowances for Doubtful Accounts and for Losses

Loans receivable are recorded at cost or amortized cost less any amount for provision for credit losses. Amounts included in the cost of loan receivable include principal not due, arrears of principal and interest, accrued interest and capitalized other costs.

The Corporation records valuation allowances to reduce the cost of impaired loans to their net realizable value. A loan is classified as impaired when collection of principal and interest is no longer reasonably assured. Two types of allowances are established for loans receivable.

Note 2 Significant Accounting Policies and Reporting Practices (continued)

(g) Loans Receivable and Allowances for Doubtful Accounts and for Losses (continued)

Specific allowance – a specific allowance is established after a loan-by-loan review of accounts meeting prescribed criteria indicative of a potential deterioration in the credit quality of debt. The specific allowance for each loan is determined as the difference between the loan principal amount outstanding and the discounted net present value of the related security net of the cost of realization. Changes in net realizable value of security subsequent to the recording of the initial allowance are adjusted through the specific allowance.

General allowance – two types of general allowance are recorded. The first type is for estimated probable losses relating to deterioration in the full recoverability of individual loan accounts which have not yet met management's criteria for setting up a specific allowance at the balance sheet date. A methodology is applied to determine the Corporation's risk exposure to probable losses on individual loan accounts not subject to a specific allowance. The second type is for the aggregate amount owing for individual loans under a specific program or industry sector or a geographical area. In determining the allowance, management considers economic and market conditions and uncertainties affecting recoverability of such loans.

Loans are written off against the related allowance for doubtful accounts and for losses if there is no realistic prospect of future recovery. Any recovery of amounts previously written off is recognized on receipt of proceeds.

(h) Concessionary Loans and Loan Discounts

A loan is considered to have concessionary terms when at inception of the loan, the net present value of expected future cash flows is less than present book value. Book values of concessionary loans are reduced to their net present values by loan discounts expensed in the year in which loans are disbursed and amortized to interest revenue over the period of the concessionary term in proportion to loan repayments received.

(i) Investments

Investments are carried at cost or amortized cost unless there is an other than temporary decline in the value of the investments; then the investments are written down to recognize the loss. Premiums and discounts on investments are amortized to investment income using the effective interest rate method over the period to maturity of the related investment. Gains and losses realized on disposal of investments are included in investment income.

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2015

(dollars in thousands)

Note 2 Significant Accounting Policies and Reporting Practices (continued)

(j) Borrowing from Government of Alberta

Borrowing is carried at amortized cost. Premiums and discounts on borrowing are amortized to interest expense using the effective yield method over the period to maturity.

(k) Tangible Capital Assets including Capital Leases

Tangible capital assets of the Corporation are recorded at historical cost and amortized on a straight-line basis over the estimated useful lives of the assets. An asset acquired, other than computer software, with a life of more than one year and a cost of $5 or more is capitalized. Computer software acquired from external sources at a cost of $100 or more and software developed by the Corporation costing $500 or more are capitalized.

Leases that, from the point of view of the lessee, transfer substantially all the benefits and risks incidental to the ownership of the asset to the Corporation are considered capital leases. These are accounted for as an asset and an obligation. Capital lease obligations are recorded at the present value of the minimum lease payments excluding executory costs. The discount rate used to determine the present value of the lease payments is the Corporations incremental borrowing rate.

(l) AgriStability, AgriInvest and AgriRecovery Program

Payments under the programs to participants, administration expenses and corresponding contributions from the Governments of Canada and Alberta are recorded at 100% for AgriStability and AgriRecovery programs because the programs are delivered by the Corporation and at 40% for AgriInvest program because the program is delivered by Agriculture and Agri-Food Canada.

(m) Reinsurance

The Corporation carries reinsurance to cover AgriInsurance risks through two levels of government. Two crop reinsurance funds were established. On behalf of the Province, the Corporation administers the provincial fund called the Crop Reinsurance Fund of Alberta. The Government of Canada holds the federal fund called the Crop Reinsurance Fund of Canada for Alberta. The Crop Reinsurance Fund of Alberta is included as part of the AgriInsurance net assets of the Corporation. Contributions to and withdrawals from the Funds are made in accordance with terms and conditions of the agreement between the Governments of Canada and Alberta (see Note 16).

Note 2 Significant Accounting Policies and Reporting Practices (continued)

(m) Reinsurance (continued)

In addition, the Corporation carries reinsurance through private reinsurance companies for AgriInsurance and Hail insurance programs. Amounts recoverable from private reinsurers on premiums and indemnities are recorded in Accounts receivable.

Reinsurance recoveries are reported gross; they are included in fees and other revenue. Reinsurance expenses are reported at gross amounts and are separately disclosed in Schedule 1.

(n) AgriInsurance Net Assets Balance Restriction

In accordance with the Federal/Provincial Agricultural Policy Framework Implementation Agreement, amounts in the AgriInsurance net assets are restricted for AgriInsurance purposes only.

(o) Pensions

The Corporation participates in multi-employer pension plans with related government entities. Pension costs included in these statements are comprised of the cost of employer contributions for the current year service of employees.

(p) Transactions with Related Parties

The Government of Alberta significantly influences the programs delivered by the Corporation and is a major contributor to the funding of the programs. Therefore, the Government is considered a related party. All related party transactions with the Government of Alberta have been recorded at the exchange amount which is the consideration paid or received as agreed to by the related party (see Note 15).

(q) PS3260 Liability for Contaminated Sites

In June 2010, the Public Sector Accounting Board issued this accounting standard effective for fiscal years starting on or after April 1, 2014. Contaminated sites are a result of contamination being introduced into air, soil, water, or sediment of a chemical, organic, or radioactive material, or live organism that exceeds an environmental standard. The Corporation early adopted this accounting standard as of April 1, 2012. AFSC recognizes a liability for the sites no longer in use where the contamination has exceeded the relevant environmental standards and where AFSC has accepted responsibility. Included in Accounts Payable and Accrued Liabilities (Note 7) is a liability of $743 for the estimated remaining remediation (2014 $755).

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2015

(dollars in thousands)

Note 3 Accounts Receivable

	2015	2014
AgriStability & Canadian Agricultural Income Stabilization (CAIS) programs:		
Overpayments	$ 13,951	$ 19,434
Administration fees	370	549
Premiums from insured persons		
AgriInsurance program	3,116	2,020
Livestock insurance program	2,537	2,918
Hail insurance program	294	379
Amounts due under Western Livestock Price insurance program	-	1,368
Other	5,879	4,942
	26,147	31,610
Allowances for doubtful accounts		
At beginning of year	(19,618)	(19,887)
Decrease (increase) for this year	3,436	70
Write offs, net of recoveries	2,094	199
At end of year	(14,088)	(19,618)
	$ 12,059	$ 11,992

Included in the allowances for doubtful accounts is $13,951 (2014 $19,434) representing the amount of overpayments under AgriStability and CAIS programs in recognition of the Corporation's role as an agent for collection. The allowance for doubtful accounts is subject to measurement uncertainty as it is an estimate based on management's assessment of collectability of outstanding balance. Actual write-offs realized in future periods could be materially different from management's estimates.

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2015

(dollars in thousands)

Note 4 Loans Receivable

Loans receivable are comprised of the following:

	2015			2014
	Farm	Commercial	Total	Total
Performing loans - non concessionary	$ 1,624,498	$ 417,459	$ 2,041,957	$ 1,922,025
Performing loans - concessionary	5,422	-	5,422	7,274
Impaired loans	5,061	25,053	30,114	30,035
	1,634,981	442,512	2,077,493	1,959,334
Accrued interest	24,893	2,050	26,943	26,266
Loan discount	(70)	-	(70)	(90)
	1,659,804	444,562	2,104,366	1,985,510
Allowances	(10,013)	(26,731)	(36,744)	(32,591)
Net carrying value	$ 1,649,791	$ 417,831	$ 2,067,622	$ 1,952,919

All loans have fixed interest rates for the term of loan or renewal period.

Loans have blended repayments during the term. Loans can be repaid in full or part during the term without any penalty.

Allowances for doubtful accounts for loans are as follows:

	Farm	Commercial	2015	2014
At beginning of year	$ 11,888	$ 20,703	$ 32,591	$ 37,542
Increase (decrease) for the year	(1,863)	9,520	7,657	(3,203)
Write-offs	(12)	(3,492)	(3,504)	(1,748)
At end of year	$ 10,013	$ 26,731	$ 36,744	$ 32,591
Specific allowance	$ 851	$ 23,949	$ 24,800	$ 15,622
General allowance	9,162	2,782	11,944	16,969
	$ 10,013	$ 26,731	$ 36,744	$ 32,591

Valuation allowances of loans receivable are based on management's best estimate. Actual losses realized may vary significantly from management's estimate.

Loans receivable are secured by tangible assets consisting predominantly of land followed by buildings, equipment and other assets. The estimated values of such assets are $4,035 (2014 $3,749).

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2015

(dollars in thousands)

Note 4 Loans Receivable (continued)

The composition of the Loans receivable balance by range of effective annual interest rates is as follows:

Effective annual Interest Rate	2015	2014
Less than or equal to 2%	$ 70,554	$ 76,218
2.01% to 3.00%	280,945	206,650
3.01% to 4.00%	612,361	501,610
4.01% to 5.00%	441,625	446,125
5.01% to 6.00%	390,779	373,657
6.01% to 7.00%	233,810	289,545
7.01% to 8.00%	38,131	55,365
Over 8%	9,218	11,554
	2,077,423	1,960,724
Accrued interest	26,943	26,266
Allowance for doubtful accounts	(36,744)	(32,591)
Property reclassified as tangible capital assets	-	(1,480)
	$ 2,067,622	$ 1,952,919
Weighted average annual interest rate	4.34%	4.52%

Note 5 Investments

	2015	2014
Bonds and debentures:		
Government of Canada, direct and guaranteed	$ 938,215	$ 843,492
Other provincial, direct and guaranteed	79,991	135,728
	1,018,206	979,220
Corporate securities:		
Asset backed securities, AAA rated	461,863	329,595
Senior bank notes	342,784	316,952
	804,647	646,547
	1,822,853	1,625,767
Accrued interest	11,842	8,976
	$ 1,834,695	$ 1,634,743

The fair value of investments at March 31, 2015 is $1,861,743 (2014 $1,639,850). Fair value is based on quoted market prices excluding accrued interest.

Note 5 Investments (continued)

The following provides a breakdown of the investment portfolio by term to maturity.

	Term to Maturity [1]				
	Within 1 Year	1 to 5 Years	6 to 10 Years	2015	2014
Bonds and debentures	$ 162,415	$ 724,874	$ 130,917	$1,018,206	$ 979,220
Yield [2]	0.59%	0.79%	1.37%	0.83%	1.40%
Corporate Securities	124,993	597,838	81,816	804,647	646,547
Yield [2]	1.07%	1.34%	1.70%	1.33%	1.90%
	287,408	1,322,712	212,733	1,822,853	1,625,767
Accrued interest	1,400	8,917	1,525	11,842	8,976
	$ 288,808	$1,331,629	$ 214,258	$1,834,695	$1,634,743

[1] Term to maturity classifications are based on contractual maturity date of the security.

[2] Yield represents the rate which discounts future cash receipts to the carrying amount.

Note 6 Tangible Capital Assets

	Land	Building	Furniture and Fixtures	Computer Equipment and Software		
Estimated Useful Life	Indefinite	25 - 40 years	5 - 10 years	2 - 10 years	2015	2014
Cost						
At beginning of year	$ 1,827	$ 9,987	$ 10,226	$ 94,348	$ 116,388	$ 108,972
Additions	-	-	1,404	4,472	5,876	8,286
Disposals	-	-	(146)	(241)	(387)	(870)
	1,827	9,987	11,484	98,579	121,877	116,388
Accumulated amortization						
At beginning of year	-	4,698	5,791	60,460	70,949	62,303
Amortization expense	-	362	1,114	8,174	9,650	9,515
Disposals	-	-	(95)	(241)	(336)	(869)
	-	5,060	6,810	68,393	80,263	70,949
Net book value at March 31, 2015	$ 1,827	$ 4,927	$ 4,674	$ 30,186	$ 41,614	
Net book value at March 31, 2014	$ 1,827	$ 5,289	$ 4,476	$ 33,847		$ 45,439

Computer equipment and software costs include $6,120 (2014 $5,260) of costs incurred that are not amortized because they are still in the development stage.

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2015

(dollars in thousands)

Note 7 Accounts Payable and Accrued Liabilities

	2015	2014
Salaries, wages and employee benefits	$ 7,087	$ 7,425
Supplies and services	6,589	8,090
Reinsurance Premiums to Government of Canada	63	515
Other	648	689
	$ 14,387	$ 16,719

Note 8 Due to Other Provincial Governments

Due to provincial governments represents amounts collected from and paid to other provincial governments relating to the Western Livestock Price Insurance Program which was implemented in April 2014. The program provides producers with protection against an unexpected drop in prices on cattle and hogs. The Corporation entered into an agreement with the other provincial governments to deliver this program to producers in British Columbia, Saskatchewan and Manitoba. Any premiums, indemnities or expenses collected on behalf of producers outside of Alberta are recorded as Due to provincial governments in the financial statements. The Corporation's Statement of Operations includes premiums, indemnities and administration expenses for Alberta producers only.

Breakdown of the amounts owing is as follows:

	2015	2014
Premiums collected	$ 5,508	$ -
Indemnities paid	-	-
Administration costs incurred	(772)	(1,368)
	$ 4,736	$ (1,368)

Prior year due from provincial governments is included in accounts receivable.

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2015

(dollars in thousands)

Note 9 Indemnities Payable

	2015 (Note 2(l))	2014 (Note 2(l))
AgriStability (previously CAIS program), AgriInvest, AgriRecovery and related programs		
Current claim year	$ 112,401	$ 84,564
Prior claim years	46,807	33,905
	159,208	118,469
AgriInsurance	11,966	11,745
Wildlife compensation	758	2,030
Hail insurance	552	169
Livestock price insurance	-	1,415
	$ 172,484	$ 133,828

Estimated indemnities payable of $172,484 and corresponding contributions and receivables from the Governments of Canada and Alberta are subject to measurement uncertainty because they could change materially in the future, if factors and assumptions considered by management in establishing the estimates were to change significantly.

Estimated indemnities for the current claim year for the AgriStability and AgriInvest programs are based on a variety of factors such as number of participants, estimated reference margins, estimated claim year margins based on projected forecast commodity prices, crop yields, inventory changes and forecast changes in eligible income and expenses on an aggregate basis for different types of agriculture industry. Based on the above key assumptions and using a statistical model for projections estimated indemnities for the current year would be in the range of $88,621 to $138,860.

Estimated indemnities for prior claim years under AgriStability, AgriInvest and AgriRecovery programs are based on probable payments for claims not yet processed.

Estimated indemnities payable for the AgriInsurance program are based upon number of claims remaining to be paid and average claim payment amounts. The indemnities payable also includes claims deferred by producers. Based on that information the projected estimated indemnities would be in the range of $9,310 to $14,621.

Indemnities for Livestock Price Insurance Program are based on estimated payments using forward contract prices applicable to policies sold during the fiscal year with settlement dates beyond the end of fiscal year.

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2015

(dollars in thousands)

Note 10 Borrowing from Government of Alberta

All borrowings from the Government of Alberta bear interest rates which are fixed for the term of the borrowing. Repayment of principal is on maturity with the exception of a small number of borrowings which require blended repayments during the term.

The composition of outstanding borrowing from the Government of Alberta by range of effective annual interest rate is as follows:

	2015	2014
Effective annual Interest Rate		
Less than or equal to 2%	$ 170,000	$ 120,000
2.01% to 3.00%	483,000	433,000
3.01% to 4.00%	809,238	784,238
4.01% to 5.00%	489,751	514,751
5.01% to 6.00%	55,155	75,634
	2,007,144	1,927,623
Accrued interest	14,431	14,045
Unamortized premium	2,351	4,900
	$ 2,023,926	$ 1,946,568
Weighted average annual interest rate	3.51%	3.62%

Principal repayments due in each of the next five years and thereafter are as follows:

Year ending March 31,	2016	$ 108,642
	2017	185,506
	2018	68,780
	2019	186,092
	2020	293,109
	Thereafter	1,165,015
		$ 2,007,144

The estimated fair value of borrowings as at March 31, 2015 is $2,232,195 (2014 $2,025,893). Fair value is an approximation of market value to the holder.

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2015

(dollars in thousands)

Note 11 Deferred Revenue

	2015	2014
Unearned revenue	$ 4,349	$ 5,732
Spent deferred capital contributions	18,657	18,246
	$ 23,006	$ 23,978

Unearned revenue

	2015				2014
	Government of Canada	Non-government	Government of Alberta	Total	Total
Balance at beginning of year	$ -	$ 5,732	$ -	$ 5,732	$ 11,566
Received during year	-	4,349	-	4,349	5,732
Less amounts recognized	-	(5,732)	-	(5,732)	(11,566)
Balance at end of year	$ -	$ 4,349	$ -	$ 4,349	$ 5,732

Spent deferred capital contributions

	2015				2014
	Government of Canada	Non-government	Government of Alberta	Total	Total
Balance at beginning of year	$ 10,496	$ 752	$ 6,998	$ 18,246	$ 16,012
Transferred capital assets received	2,393	194	1,595	4,182	7,072
Less amounts recognized as revenue	(2,219)	(73)	(1,479)	(3,771)	(4,838)
Balance at end of year	$ 10,670	$ 873	$ 7,114	$ 18,657	$ 18,246

Unearned revenue represents premiums received from producers for AgriInsurance programs, fees collected for the AgriStability program relating to the next fiscal year and amounts collected in advance from other provincial governments for licensing fees for the Western Livestock Price Insurance Program. Spent deferred capital contributions represent contributions received from the federal and provincial governments that are restricted for the acquisition of tangible capital assets.

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2015

(dollars in thousands)

Note 12 Pensions

The Corporation participates in the multi-employer Alberta Management Employees Pension Plan and the Alberta Public Service Pension Plan. The Corporation also participates in the multi-employer Supplementary Retirement Plan for Alberta Public Service Managers.

AFSC does not have sufficient plan information to follow the standards for defined benefit accounting, and therefore, follows the standards for defined contribution accounting. Accordingly, pension expense recorded for the plans is comprised of employer contributions to the plan that are required for its employees during the year, which are calculated based on actuarially pre-determined amounts that are expected to provide the plan's future benefits. The expense for these pension plans is equivalent to the annual contributions of $6,407 for the year ended March 31, 2015 (2014 $6,155).

At December 31, 2014, the Alberta Management Employees Pension Plan reported a surplus of $75,805 (2013 surplus $50,457) and the Alberta Public Service Pension Plan reported a deficiency of $803,299 (2013 deficiency $1,254,678). At December 31, 2014, the Supplementary Retirement Plan for Alberta Public Service Managers had a deficiency of $17,203 (2013 deficiency $12,384). The Corporation's share of these pension plans' deficiency is not determinable. The Corporation is not responsible for future funding of the plan deficits other than through contribution increases.

Note 13 Contingencies, Contractual Obligations and Commitments

Contingent Liability

	2015	2014
Loan guarantees	$ 12,972	$ 10,226
Less allowances for losses	(150)	(150)
Total contingencies	$ 12,822	$ 10,076

Included in loan guarantees is $11,779 (2014 $8,750) guaranteed under the Alberta Flood Recovery Loan Guarantee Program (AFRLGP), which was established to assist Alberta businesses directly impacted by the June 2013 flood in southern Alberta. Under the AFRLGP, the Corporation has entered into agreements with financial institutions guaranteeing repayment of up to 75% of loans issued under this program.

Note 13 Contingencies, Contractual Obligations and Commitments (continued)

The Corporation has not been named in any legal matters of which the outcome is not determinable (2014 nil).

Contractual Obligations

	2015	2014
Reinsurance	29,286	25,170
Operating leases	7,866	6,246
Other contracts	1,355	2,556
Total contractual obligations	$ 38,507	$ 33,972

The operating lease contractual obligations are for accommodations with terms up to fourteen years.

Commitments

	2015	2014
Approved, undisbursed loans	$ 170,249	$ 181,981

Note 14 Financial Instruments and Financial Risk Management

Financial instruments comprise the majority of AFSC's assets and liabilities. AFSC is exposed to credit, interest and liquidity risks in respect to its use of financial instruments.

Credit Risk

Credit risk is the possibility that a debtor will not pay amounts owing to AFSC, resulting in a loss to the Corporation.

AFSC's maximum possible exposure to credit risk is as follows:

	2015	2014
Loans receivable	$ 2,070,149	$ 1,952,919
Investments	1,834,695	1,634,743
Due from Government of Canada	156,395	116,260
Due from Government of Alberta	66,729	40,176
Accounts receivable	12,059	11,992
Loan guarantees	12,972	10,226
Total commitments	$ 4,152,999	$ 3,766,316

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2015

(dollars in thousands)

Note 14 Financial Instruments and Financial Risk Management (continued)

Loans receivable - Security requirements for a loan or guarantee depend on the risk involved in each individual operation. Adequate security is required for new and emerging businesses as well as for enterprises needing specialized or customized equipment. To mitigate credit risk, lending staff monitor loan accounts continually to ensure prompt response to any financial difficulties customers may encounter.

Investments - AFSC invests surplus funds generated by Production and Hail Insurance operations. To decrease the risk of loss of investment, the majority of funds are invested in bonds of federal or provincial governments or securities of corporations that have superior credit ratings. The investments are managed by Alberta Investment Management Corporation, an Alberta Crown Corporation. AFSC also invests in asset-backed securities (AAA rating) and senior bank notes (A rating and higher). Both of these investments consist of securities with relatively low levels of risk.

Due from the Government of Alberta and the Government of Canada – AFSC is not exposed to significant credit risk as payment in full is typically collected when due.

Accounts receivable - Payments to some CAIS/AgriStability participants resulted in overpayments when information provided to AFSC by participants proved to be incorrect or not supported. This creates a risk of potential non-repayment of the overpayments. The Corporation may set off overpayments against any payments to customers.

AFSC provides insurance coverage on crops, effective at the acceptance of the customer's application for insurance, with or without payment of premiums in full. Non-collection of outstanding insurance premiums is a risk. To minimize this risk, a discount is offered for early payment of insurance premiums and arrangements made for a payment schedule for all customers not taking advantage of the discount. Insurance staff closely monitors outstanding premiums and promptly take collection action when required.

Note 14 Financial Instruments and Financial Risk Management (continued)

The following breakdown of the Loans receivable provides an indication of the concentration of credit risk in the loan portfolio. Further information is provided throughout these statements which disclose other concentrations of credit risk.

	2015		2014	
	Dollar	Percentage	Dollar	Percentage
Loans receivable by individual sector:				
Grain and Oilseeds	$ 1,044,243	50%	$ 945,750	48%
Cattle	514,474	25%	472,814	24%
Accommodations and Other Services	120,731	6%	122,898	6%
Manufacturing	98,280	5%	101,849	5%
Other Livestock	74,220	4%	69,352	4%
Trade - Retail and Wholesale	54,358	3%	68,073	3%
Commercial and Industrial	41,661	2%	49,174	3%
Transportation and Warehousing	36,755	2%	38,092	2%
Professional Services	30,110	1%	30,674	2%
Other	89,534	4%	88,314	5%
Allowance	(36,744)	-2%	(32,591)	-2%
	2,067,622	100%	1,954,399	100%
Property reclassified as tangible capital assets	-		(1,480)	
	$ 2,067,622	100%	$ 1,952,919	100%

Interest Rate Risk

Interest rate risk is the impact future changes in interest rates have on cash flows and fair values of financial assets and liabilities. AFSC's interest rate exposure relates to investments, loans receivable, and borrowing from the Government of Alberta.

Investments – Interest rate risk on investments is mitigated by AFSC's Investment Policy for surplus funds. The investment policy is approved by the Board of Directors and compliance with the policy is reported to the Board Audit Committee at least twice a year. Duration of investments are set to match management's best estimate of when investments may be needed to be liquidated to meet financial commitments.

Loans receivables – Loans receivable balances consist of loans with interest rates fixed either until maturity date or for a term with a renewable option. The Corporation allows its customers to prepay their loans without any prepayment penalties. In the normal course of business, loan customers prepay their loans in part or in full prior to the contractual maturity date. Impact of interest rate changes on performance of loan portfolio and cash flows could be significant as a result of changes in market interest rates and borrower's repayment preferences.

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2015

(dollars in thousands)

Note 14 Financial Instruments and Financial Risk Management (continued)

Borrowing from the Government of Alberta - The interest rates on borrowings are fixed until maturity. For a vast majority of borrowings, principal repayments are due in full on maturity date with no prepayment option. The Government of Alberta provides an annual contribution to the Corporation that includes an amount to bridge the gap between interest revenue from the loan portfolio and interest on borrowings annually through the budget process. Cash inflows are matched with outflows through additional borrowing as required from the Government of Alberta. Management has assessed that the interest rate risk related to borrowing is not significant.

The following position of the Corporation's loan portfolio and borrowing provides additional information on interest rate risk.

	Scheduled Repayment[1]				Not[2] Interest Rate Sensitive	2015	2014
	Within 1 Year	1 to 5 Years	6 to 10 Years	Over 10 Years		Total	Total
Loan balances	$ 188,307	$ 631,284	$ 575,523	$ 673,177	$ (669)	$ 2,067,622	$ 1,952,919
Yield	4.04%	4.10%	4.09%	3.21%		3.97%	4.34%
Borrowing from Government of Alberta	$ 108,642	$ 733,487	$ 679,294	$ 485,721	$ 16,782	$ 2,023,926	$ 1,946,568
Yield[3]	3.57%	3.69%	3.49%	3.11%		3.57%	3.64%
Net gap	$ 79,665	$ (102,203)	$ (103,771)	$ 187,456	$ (17,451)	$ 43,696	$ 6,351

(1) For loan balances, scheduled repayments of principal are based on amortization of loans for the remaining term up to maturity at applicable interest rates. For borrowing from the Government of Alberta, scheduled repayments reflect contractual repayment of principal.

(2) Includes specific and general allowance, accrued interest and unamortized loan discount.

(3) Yield represents the rate which discounts future cash receipts to the carrying amount.

Liquidity Risk

Liquidity risk relates to AFSC's ability to access sufficient funds to meet its financial commitments.

AFSC's primary liquidity risk relates to its liability for insurance claims. Insurance claims are funded firstly with current year premiums collected, which normally exceeds cash requirements. In addition, the investment portfolio of surplus funds in insurance operations is structured in such a way that a portion of the portfolio is accessible at short notice to fund claim payments. The Corporation also carries private sector reinsurance for AgriInsurance and Hail Insurance providing significant protection against catastrophic losses. If all of the above are exhausted, the AgriInsurance program has a reinsurance agreement with the Government of Canada and the Government of Alberta to provide additional funding for claim payments. Additionally, the Corporation has access to advances from the Government of Alberta to meet short-term cash flow needs.

Note 15 Related Party Transactions

Related parties are those entities consolidated or accounted for on the modified equity basis in the Government of Alberta's financial statements. Related parties also include management in the Corporation.

The Corporation had the following transactions with related parties recorded on the Statement of Operations and the Statement of Financial Position at the amount of consideration agreed upon between the related parties:

	2015	2014
Revenues:		
Grants	$ 286,417	$ 323,397
Other	3,874	4,801
	$ 290,291	$ 328,198
Expenses:		
Accommodation	$ 742	$ 784
Other services	1,840	1,717
Interest	69,761	67,752
	$ 72,343	$ 70,253
Payable to:		
Ministry of Agriculture and Rural Development	$ 514	$ 520
Ministry of Treasury Board and Finance	2,023,926	1,946,568
Ministry of Service Alberta	7	4
Receivable from:		
Ministry of Agriculture and Rural Development	66,250	40,176
Deferred Revenue from:		
Ministry of Agriculture and Rural Development	7,114	6,998
	$ 2,097,811	$ 1,994,266

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2015

(dollars in thousands)

Note 16 Crop Reinsurance Funds

The contributions, withdrawals and accumulated net asset positions of the Crop Reinsurance Fund of Alberta and the Crop Reinsurance Fund of Canada for Alberta are as follows (see Note 2(m)):

	AgriInsurance Reinsurance Fund of Alberta		AgriInsurance Reinsurance Fund of Canada for Alberta	
	2015	2014	2015	2014
Opening net assets	$ 33,641	$ 30,379	$ 34,318	$ 31,056
Contributions	-	3,262	-	3,262
Closing net assets	$ 33,641	$ 33,641	$ 34,318	$ 34,318

The net assets balance in the Crop Reinsurance Fund of Alberta is consolidated in the AgriInsurance Fund in Schedule 1.

Note 17 Budget

The budget reported in the Statement of Operations was included in the 2014/15 Government Estimates.

Note 18 Comparative Figures

The 2014 figures have been reclassified where necessary to conform to 2015 presentation.

AGRICULTURE FINANCIAL SERVICES CORPORATION
SCHEDULE OF OPERATIONS
YEAR ENDED MARCH 31, 2015
(dollars in thousands)

	2015	2014	2015	2014	2015
	AgriInsurance	AgriInsurance	Agriculture Income Support	Agriculture Income Support	Lending
	Note 2(n)	Note 2(n)			
Revenues:					
Premiums from insured persons	$ 231,168	$ 309,142	$ -	$ -	$ -
Interest	563	719	564	1,300	87,100
Contribution from Government of Alberta	203,539	266,860	64,804	37,893	18,297
Contribution from Government of Canada	183,432	232,233	56,812	21,282	-
Investment income	42,234	31,929	371	327	728
Fees and other income	(35)	158	10,715	10,441	3,202
	660,901	841,041	133,266	71,243	109,327
Expenses:					
Indemnities	367,560	306,355	117,158	52,201	-
Salaries, wages and employee benefits	25,742	23,273	13,380	13,007	18,701
Supplies and services	12,662	11,139	5,025	5,001	5,806
Amortization of tangible capital assets	2,872	2,755	2,593	2,751	2,767
Interest	4	4	2	2	69,886
Reinsurance	23,031	28,693	-	-	-
Allowance for doubtful accounts and for losses (Note 3 & 4)	(3)	(275)	(3,517)	189	7,657
	431,868	371,944	134,641	73,151	104,817
Net operating results	229,033	469,097	(1,375)	(1,908)	4,510
Net assets at beginning of year	1,801,833	1,332,736	3,257	5,165	79,542
Net assets at end of year	$ 2,030,866	$ 1,801,833	$ 1,882	$ 3,257	$ 84,052

Schedule 1

2014	2015	2014	2015	2014	2015	2014	2015	2014
Lending	Hail Insurance	Hail Insurance	Livestock Insurance	Livestock Insurance	Wildlife Damage Compensation	Wildlife Damage Compensation	Total	Total
$ -	$ 55,316	$ 46,392	$ 20,730	$ 23,433	$ -	$ -	$ 307,214	$ 378,967
82,984	111	100	72	46	-	-	88,410	85,149
16,404	-	-	1,521	2,173	2,130	4,868	290,291	328,198
-	-	-	1,828	400	2,060	4,655	244,132	258,570
461	231	193	135	(76)	(4)	(24)	43,695	32,810
3,149	2,021	383	576	(2)	56	71	16,535	14,200
102,998	57,679	47,068	24,862	25,974	4,242	9,570	990,277	1,097,894
-	61,237	37,773	(976)	5,803	3,567	8,607	548,546	410,739
17,009	1,176	1,182	2,065	1,680	337	618	61,401	56,769
5,964	1,130	1,038	1,041	810	154	354	25,818	24,306
2,776	752	734	630	443	36	57	9,650	9,516
67,925	-	-	-	-	-	-	69,892	67,931
-	2,224	1,918	1,700	-	-	-	26,955	30,611
(3,203)	(2)	(69)	(4)	4	90	82	4,221	(3,272)
90,471	66,517	42,576	4,456	8,740	4,184	9,718	746,483	596,600
12,527	(8,838)	4,492	20,406	17,234	58	(148)	243,794	501,294
67,015	20,571	16,079	6,009	(11,225)	1,241	1,389	1,912,453	1,411,159
$ 79,542	$ 11,733	$ 20,571	$ 26,415	$ 6,009	$ 1,299	$ 1,241	$ 2,156,247	$ 1,912,453

Schedule 2

AGRICULTURE FINANCIAL SERVICES CORPORATION

SCHEDULE OF SALARIES AND BENEFITS

YEAR ENDED MARCH 31, 2015

(dollars in thousands)

	2015				2014
	Base Salary[1]	Other Cash Benefits[2]	Other Non-cash Benefits[3]	Total	Total
Chairman of Board	$ 51			$ 51	$ 67
Board members[4]	174			174	296
President and Managing Director	485	51	96	632	670
Executive Members					
Senior Vice-President, Corporate Services[5]	158	94	34	286	384
Chief Operating Officer	246	27	58	331	342
Vice-President, Human & Corporate Services	246	18	59	323	332
Vice-President, Innovation & Product Development	234	27	54	315	290
Chief Information Officer[6]	185	72	37	294	264
Chief Financial Officer	190	5	50	245	237
Chief Communication and Marketing Officer[7]	135	1	38	174	77

(1) Base salaries are fees for Chair and Board members and base pay for employees.

(2) Other cash benefits include vacation payments and lump sum payments. There were no bonuses paid during the year.

(3) Other non-cash benefits include employer's share of all employee benefits and contributions or payments made on behalf of employees, including health care, dental, medical and vision care, group life insurance benefits, pension and supplementary retirement plan, employment insurance, accidental death/dismemberment and long-term disability insurance, workers' compensation and professional memberships. No amount is included in other non-cash benefits for an automobile provided to the President and Managing Director.

(4) The amounts relate to eleven Board members during 2014/15 (eleven in 2013/14).

(5) Position was for seven (7) months in 2014/15.

(6) The current Chief Information Officer commenced employment on February 15, 2015. An acting Chief Information Officer held that position from September 1, 2014 to February 14, 2015. The outgoing Chief Information Officer held that position from April 1, 2014 to August 31, 2014.

(7) Position was for five and a half (5.5) months in 2013/14.

AFSC OFFICES (AS OF MAY 1, 2015)

AFSC OFFICE LOCATIONS (AS OF MAY 1, 2015)

AIRDRIE

97 East Lake Ramp NE
Airdrie AB
T4A 0C3
Insurance Phone: (403) 948-8543
Lending Phone: (403) 948-8529
Fax: (403) 948-1418

ATHABASCA

Provincial Building
100 - 4903 - 50th Street
Athabasca AB
T9S 1E2
Insurance Phone: (780) 675-4007
Lending Phone: (780) 675-8160
Fax: (780) 675-3827

BARRHEAD

4924 - 50th Avenue
Barrhead AB
T7N 1A4
Insurance Phone: (780) 674-8782
Lending Phone: (780) 674-8785
Fax: (780) 674-8787

BROOKS

Provincial Building
220 - 4th Avenue W
Brooks AB
T1R 0G1
Insurance Phone: (403) 362-1262
Lending Phone: (403) 362-1216
Fax: (403) 362-8078

CALGARY

Deerfoot Atrium North
Suite 150 6815 - 8th Street NE
Calgary AB
T2E 7H7
Phone: (403) 297-6281
Fax: (403) 297-8461

CAMROSE

PO Box 5000 Stn M
4910 - 52nd Street
Camrose, AB
T4V 2V4
AgriStability Analyst:
Phone: (780) 679-1319
Fax: (780) 679-1758
Insurance: Phone: (780) 679-1739
Fax: (780) 679-1758
Lending:
Phone: (780) 679-1229
Fax: (780) 679-1300

CLARESHOLM

Provincial Building
109 - 46th Avenue W
PO Box 1227
Claresholm AB
T0L 0T0
Insurance Phone: (403) 625-3534
Lending Phone: (403) 625-1462
Fax: (403) 625-2862

DRUMHELLER

111 Railway Avenue W
Drumheller AB
T0J 0Y0
Phone: (403) 823 3042
Fax: (403) 823-5083

EDMONTON

Room 100
J.G. O'Donoghue Building
7000-113 Street
Edmonton AB
T6H 5T6
Phone: (780) 427-2140
Fax: (780) 415-1218

EDSON

PO Box 11
Provincial Building
111 54 Street
Edson AB
T7E 1T2
Phone: (780) 723-8233
Fax: (780) 723-8575

FAIRVIEW

PO Box 1188
Provincial Building
10209 - 109th Street
Fairview AB
T0H 1L0
AgriStability Analyst Phone: (780) 835-2295
Insurance Phone: (780) 835-2703
Lending Phone: (780) 835-4975
Fax: (780) 835-3994

FALHER

PO Box 658
701 Main Street
Falher AB
T0H 1M0
Insurance & Lending: Phone: (780) 837-2521
Fax: (780) 837-8223

FOREMOST

PO Box 37
218 Main Street
Foremost AB
T0K 0X0
Phone: (403) 867-3666
Fax: (403) 867-2038

GRANDE PRAIRIE

102 - 10625 Westside Drive
Grande Prairie AB
T8V 8E6
AgriStability Analyst Phone: (780) 538-5234
Lending Phone: (780) 538-5220
Insurance Phone (780) 538-5355
Fax: (780) 532-2560

GRIMSHAW

PO Box 802
5306 - 50th Street
Grimshaw AB
T0H 1W0
Insurance & Lending: Phone: (780) 332-4494
Fax: (780) 332-1044

HANNA

PO Box 7 (Insurance)
PO Box 349 (Lending)
Provincial Building
401 Centre Street
Hanna AB
T0J 1P0
Insurance Phone: (403) 854-5525
Lending Phone: (403) 854-5505
Fax: (403) 854-2590

HIGH PRAIRIE

Provincial Building
PO Box 1259
5226 - 53rd Avenue
High Prairie AB
T0G 1E0
Phone: (780) 523-6507
Fax: (780) 523-6569

HIGH RIVER

PO Box 5208
129 - 4th Avenue SW
High River AB
T1V 1M4
Insurance & Lending: Phone: (403) 652-8313
Fax: (403) 652-8306

LACOMBE CENTRAL OFFICE

5718 - 56 Avenue
Lacombe AB
T4L 1B1
Phone: (403) 782-8200

LA CRETE

10105 94th Avenue
La Crete AB
T0H 2H0
Lending Phone: 780-928-2849

LAMONT

PO Box 487
5014 - 50th Avenue
Lamont AB
T0B 2R0
Insurance Phone: (780) 895-2266
Lending Phone: (780) 895-2459
Fax: (780) 895-7755

LEDUC

6547 Sparrow Drive
Leduc AB
T9E 7C7
Insurance Phone: (780) 986-4088
Lending Phone: (780) 986-0999
Fax: (780) 986-1085

LETHBRIDGE REGIONAL OFFICE

County of Lethbridge Building
200 - 905 - 4th Avenue S.
Lethbridge AB
T1J 0P4
AgriStability Analyst Phone: (403) 382-4383
Insurance Phone: (403) 381-5240
AgriStability & Insurance Fax: (403) 382-4527
Lending Phone: (403) 381-5102
Lending Fax: (403) 381- 5178

MANNING

PO Box 147
116 - 4th Avenue SW
Manning AB
T0H 2M0
Phone: (780) 836-3573
Fax: (780) 836-2844

MEDICINE HAT

111 - 7 Strachan Bay SE
Medicine Hat AB
T1B 4Y2
AgriStability Analyst Phone: (403) 488-4507
Insurance & AgriStability Fax: (403) 488-4516
Insurance Phone (403) 488-4509
Lending Phone: (403) 488-4508
Lending Fax: (403) 488-4518

OLDS

Provincial Building
101 - 5030 - 50th Street
Olds AB
T4H 1S1
AgriStability Analyst Phone: (403) 556-4263
Insurance Phone: (403) 556-4334
Lending Phone: (403) 556-4222
Fax: (403) 556-4255

OYEN

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T0J 2J0
Phone: (403) 664-3677
Fax: (403) 664-2687

PEACE RIVER

Bag 900 -23
9809 - 98th Avenue
Peace River AB
T8S 1J5
Insurance & Lending: Phone: (780) 624-6387
Fax: (780) 624-6493

PONOKA

PO Box 4426
Provincial Building
250 - 5110 - 49th Avenue
Ponoka AB
T4J 1S1
Insurance Phone: (403) 783-7071
Lending Phone: (403) 783-7011
Fax: (403) 783-7925

PROVOST

PO Box 716
Provincial Building
5419 - 44th Street
Provost AB
T0B 3S0
Insurance & Lending:
Phone: (780) 753-2150
Fax: (780) 753-2876

RED DEER REGIONAL OFFICE

Unit #1 - 7710 Gaetz Avenue
Red Deer AB
T4P 2A5
Insurance Phone: (403) 340-5379
Insurance Fax: (403) 340-7999
Lending Phone: (403) 340-5326
Lending Fax: (403) 340-7004

RIMBEY

PO Box 888
Provincial Building
5025 - 55th Street
Rimbey AB
T0C 2J0
Insurance & Lending:
Phone: (403) 843-4516
Fax: (403) 843-4150

SEDGEWICK

PO Box 266
4701 - 48th Avenue
Sedgewick AB
T0B 4C0
Phone: (780) 384-3880
Fax: (780) 384-2156

SMOKY LAKE

PO Box 602
Provincial Building
108 Wheatland Avenue
Smoky Lake AB
T0A 3C0
Phone: (780) 656-3644
Fax: (780) 656-3669

SPIRIT RIVER

Provincial Building
1st Floor 4602 - 50th Street
Spirit River AB
T0H 3G0
Insurance Phone: (780) 864-3896
Lending Phone: (780) 864-4244
Fax: (780) 864-2529

ST. PAUL

5025 - 49th Avenue
Provincial Building
PO Box 406
St. Paul AB
T0A 3A4
Insurance Phone: (780) 645-6221
Lending Phone: (780) 645-6453
Fax: (780) 645-2848

STETTLER

PO Box 1807 (Insurance)
Bag 600 (Lending)
5020 50th Street
Stettler AB
T0C 2L0
Insurance Phone: (403) 740-4200
Lending Phone: (403) 740-4209
Fax: (403) 740-4210

STONY PLAIN

Provincial Building
4709 - 44th Avenue
Stony Plain AB
T7Z 1N4
AgriStability Analyst Phone: (780) 968-4952
Insurance Phone: (780) 963-0600
Lending Phone: (780) 963-4720
Fax: (780) 963-1251

STRATHMORE (includes Blackfoot Reserve)

325 - 3rd Avenue
Strathmore AB
T1P 1B4
AgriStability Analyst Phone: (403) 361-9637
Insurance Phone: (403) 934-3616
Lending Phone: (403) 934-5353
Fax: (403) 934-5018

TABER

Provincial Building
5011 - 49th Avenue
PO Box 4
Taber AB
T1G 1V9
Insurance Phone: (403) 223-7900
Lending Phone: (403) 223-7920
Fax: (403) 223-7985

THORHILD

County Administration Building
PO Box 400
801 - 1st Street
Thorhild AB
T0A 3J0
Phone: (780) 398-3933
Fax: (780) 398-2087

THREE HILLS

Provincial Building
160 - 3rd Avenue S
Three Hills AB
T0M 2A0
Insurance Phone: (403) 443-8515
Lending Phone: (403) 443-8510
Fax: (403) 443-7519

VEGREVILLE

PO Box 1440
Vinet's Village Mall
Suite 138 4925 - 50th Avenue
Vegreville AB
T9C 1S6
AgriStability Analyst Phone: (780) 603-2332 Ext. 2
Insurance & Lending Phone: (780) 603-2332
Fax: (780) 632-3385

VERMILION

PO Box 10
Provincial Building
4701 - 52nd Street
Vermilion AB
T9X 1J9
AgriStability Analyst Phone: (780) 853-8238
Insurance & Lending Phone: (780) 853-8266
Fax: (780) 853-1982

VULCAN

PO Box 847
102 - 1st Street S
Vulcan AB
T0L 2B0
Insurance Phone: (403) 485-2766
Lending Phone: (403) 485-5141
Fax: (403) 485-2947

WAINWRIGHT

Provincial Building
810 - 14th Avenue
Wainwright AB
T9W 1R2
Insurance Phone: (780) 842-7547
Lending Phone: (780) 842-7542
Fax: (780) 842-4948

WESTLOCK

Provincial Building
2 - 10003 - 100th Street
Westlock AB
T7P 2E8
AgriStability Analyst Phone: (780) 349-6253
Insurance Phone: (780) 349-4544
Lending Phone: (780) 349-4529
Fax: (780) 349-5240

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Agriculture Financial Services Corporation

Corporate office:

5718 - 56 Avenue

Lacombe AB T4L 1B1

Phone: (403) 782-8200 or 1(877) 899-2372

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